


Nation's Business

A USEFUL LOOK AHEAD

NOVEMBER 1964



Preview of your markets in '75

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Federal health estimates—300% wrong **PAGE 31**

How to watch the White House **PAGE 34**

Keep your business in balance **PAGE 90**

What's right and wrong with Congress **PAGE 40**



Lloyd Cain

AMSPRO Aluminum Roof Coating reduces heat, reports Texas builder

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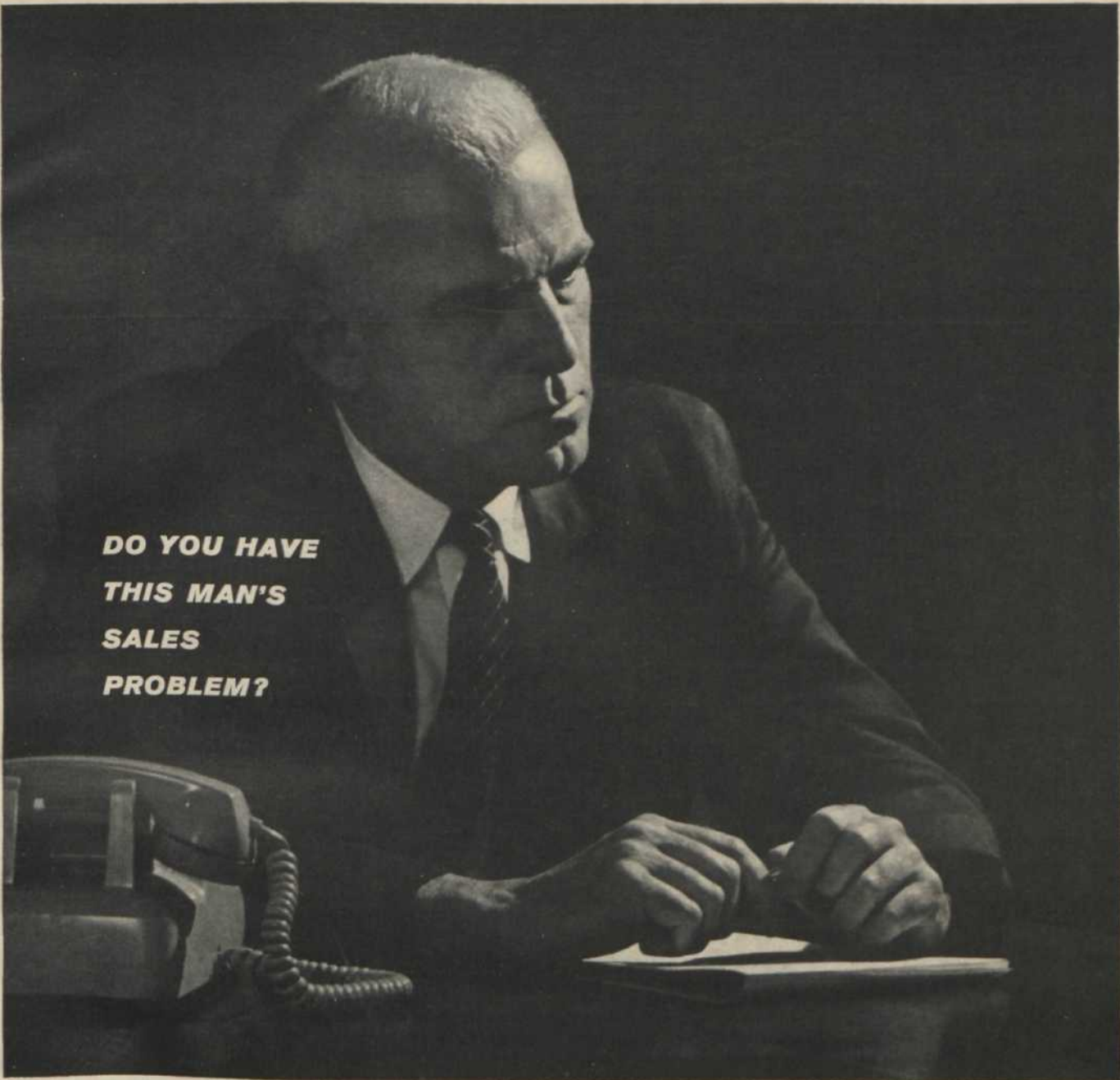
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Nation's Business

November 1964 Vol. 52 No. 11

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Washington, D.C.

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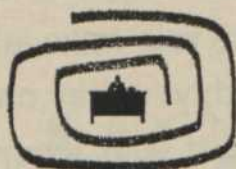
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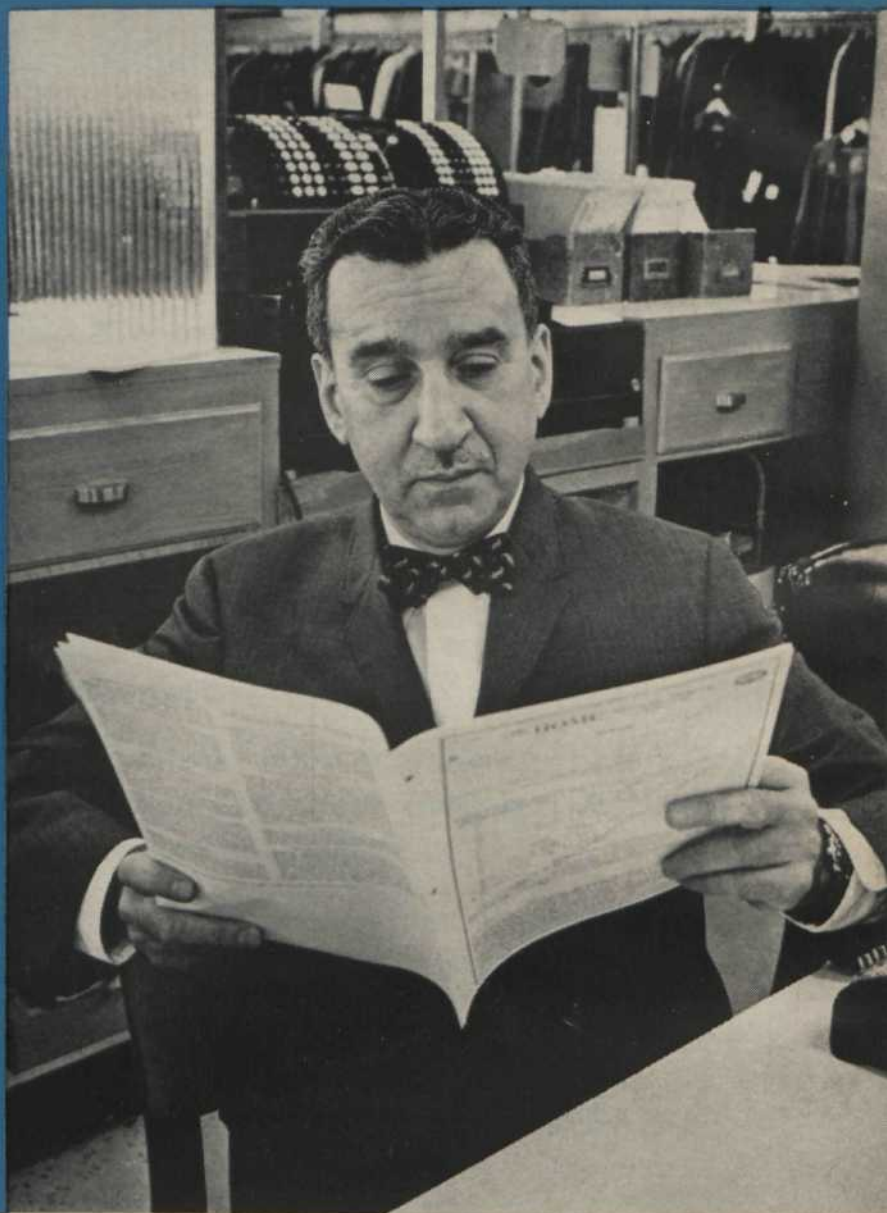
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For Mr. Myron I. Voss, Chicago, Illinois retailer—

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February 10, 1964:

Mr. Voss, President of Continental Clothing, a Men's Wear Store, saves his company \$845.00 at no sacrifice in protection, when he buys his Business Owner's Policy from The Home Insurance Company.



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Here's the proof!

March 26, 1964:

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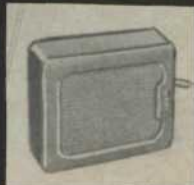
You've probably seen recorders similar to this advertised for \$269.50 and more, and they've been wire, not tape. Now, because of a solid engineering breakthrough (that cost \$200,000 in research, development and tooling), this pocket tape recorder costs almost $\frac{2}{3}$ less, and comes complete with 6 valuable accessories. Fine German craftsmanship went into the manufacture of this self-contained, push-button unit used by businessmen and police internationally. Easily carried in coat or pants pocket (or in special underarm holster), it weighs just $2\frac{3}{4}$ lbs., records speech and music with fidelity for 70 minutes on 300 feet of standard $\frac{1}{4}$ " dual-track tape. It records and plays back immediately through speaker-mike (1), telephone mike (2) which records two-way conversations without tell-tale blips, and dummy fountain-pen mike. Plays back through desk-top amplifier-speaker (3), private secretarial earphones (4). Operates on batteries (ordinary flashlight batteries at that!) or 110V AC with adapter. Further, this is the only recorder that can also be used as an actual portable P.A. system (its volume will surprise you), and as a telephone amplifier that permits you to carry on a two-way conversation with your hands free. Simply, this is the most versatile, smallest and finest push-button tape recorder made today. It is a timesaver and accurate record for businessmen, lawyers, doctors, detectives, salesmen, etc. Sold on a 10-day moneyback guarantee.



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WASHINGTON BUSINESS OUTLOOK

Seventh record-smashing year in a row is just around the corner.

Goods and services will be selling at rate of \$650 billion. Maybe more.

Adds up to minimum \$25 billion increase over this year's record production.

Optimism's based on study of prospects for purchases by consumers, businessmen, government.

These are three major purchasing agents of U. S. economy.

James M. Dawson, vice president and economist, National City Bank of Cleveland, sums up what's ahead:

"Consumers, who purchase two thirds of the economy's output, have added to their expenditures for 22 successive years.

"And next year should be number 23.

"Business outlays on plant and equipment are in a rising trend.

"Odds favor a higher level of capital spending in '65."

Government purchases, Mr. Dawson believes, "are certain to rise—for better or worse."

Healthy business growth will extend easily through midyear.

"We're seeing a peacetime performance unmatched in American economic history," comments Grover W. Ensley, executive vice president, National Association of Mutual Savings Banks.

He believes business expansion "should also continue to show the same broad outlines that we have seen since early '61."

He anticipates relative stability for prices and interest rates. He sees little need for sharp tightening of Federal Reserve Board money policies or other restrictive government actions.

But he cautions: "We must always be alert to the possibility of renewed inflationary pressures."

Two thirds of business growth next year will come in first six months.

That's how trends stack up on charts and graphs as government and business economists make final projections for New Year roundup.

What's to happen a year from now—as seen by experts this far ahead—is some slowing up in rate of advance.

Nothing serious, comments one economist who calls it breath-catching phase.

Another calls this "Japanese recession"—which means economy stops growing at seven per cent for a while and advances at only four per cent, to be followed by faster advance later on.

What's in store—if it happens that way—is last year in reverse.

Economy advanced one third during first six months, then speeded up for final six.

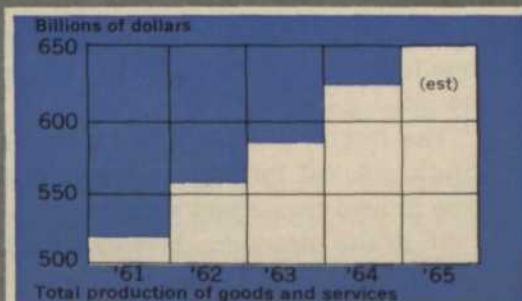
This year business has advanced at steady speed all year long.

As for possible economic changes next year, Mr. Dawson points out:

"There's time, of course, for conditions to develop which could bring on a business setback later on.

"However, next year will start well above this

More prosperity ahead for '65



year's average and prospects for the first half of the coming year are quite good.

"Accordingly, it seems reasonable to plan on aggregate totals surpassing those of this year."

Tax cuts already scheduled for next January fortify this view, he explains.

And excise tax reductions in mid-'65—if Congress approves—"would sustain the economy in the second half of next year."

Here's Dr. Ensley's view:

"The possibility that business activity will taper off some time in '65 can hardly be dismissed."

Business cycle is far from dead, he adds, "but we have no sure rules for determining when a new cyclical phase is to appear.

"For the present, however, the current expansion still shows general good health. As long as there continue to be so few signs of sickness or old age, there is little reason to expect an imminent downturn."

Careful inventory management keeps business humming smoothly—as long as management controls work.

But inventory management, like forecasting in general, deals with imponderables.

For example: Will there be a steel strike next May 1?

Could be—and that possibility thus becomes a problem for business in general.

Richard W. Everett, manager of sales control department, Continental Can Co., tells Nation's Business:

"We are confident that business will continue to grow through the rest of this year and into '65.

"The test of whether this record period of growth will last through next year is likely to come around the second quarter.

"If, in the meantime, businessmen begin to build inventories more rapidly—and there are some signs of this—we may run into a slow-

down once a settlement has been reached in the steel industry."

William P. Carlin, director of economics for Republic Steel Corp., explains:

"Exactly how long the inventory accumulation continues will depend on the nature and progress of the labor negotiations.

"Provisions of the contract permit reopening on January 1, followed by a no-strike negotiating period of 120 days.

"This raises the possibility of an inventory build-up extending well into the first part of 1965.

"Should that occur, a period of liquidation would undoubtedly follow in the latter part of the year."

Settlement would remove much of incentive for holding high inventories, Mr. Everett points out.

So union negotiations with steel companies could have implications far beyond that industry.

Inventories of other goods also become more critical.

But outlook is good.

Dr. Ensley's view:

"Accumulation of business inventories continues at a moderate pace. Inventory-sales ratios are as low as at any time in the past 10 years."

Will that last?

He looks for stocks to rise in line with increasing sales. But, with better controls, accumulation "should not reach levels that would overheat the business expansion."

Mr. Dawson points out:

For two years inventories have risen less than business activity, hence the inventory-to-shipments ratio is low.

"A swing in inventory policy strong enough to trigger a significant economic downturn is not now in sight," he declares.

WASHINGTON BUSINESS OUTLOOK

Rising costs become more worrisome.

Dr. Charles E. Walker, executive vice president, American Bankers Association, explains:

"To state it simply, I am very much afraid that we have seen the upward rupture of the cost-price stability which we have enjoyed since 1959.

"It seems to me quite clear that the stability of costs and prices that has contributed so heavily to the longevity of the business advance may not continue for long."

Economic consultant Ralph E. Burgess says:

"If prices should start to rise rapidly, we could experience a progressively intensifying boom followed by a serious bust.

"To date, inflation signs haven't appeared.

"However, recent wage settlements certainly create reason for concern in this regard, particularly should they be extended to other industries."

How about profits?

Economists spot changing trends ahead.

Herbert E. Johnson, economist at Continental Illinois National Bank and Trust Co. of Chicago, tells Nation's Business:

"A culmination of forces will be bearing down at year-end 1965.

"Thus, more questions are raised for '66 than are answered for '65.

"I do feel that the forces now pushing upward in the economy will follow a definite pattern, probably reaching a peak in the third quarter next year.

"One most important clue to the timing of these events can be found in the profit margin.

"If the profit margin continues to expand, the problems that I anticipate for the end of '65 will be pushed farther into the future.

"However, one important premise of my forecast is that we are approaching the peak in profit margins and ultimately total profits.

"Of course, as activity continues to rise, even a declining profit margin can be overcome for several quarters."

Want to preserve your profit growth?

Watch costs.

It's human nature to let costs slide during periods of prosperity.

Auto milestone comes up soon.

Estimate: 180 millionth car made in America since 1900 will come off assembly line in time to become some family's Christmas gift.

Full-speed production means this year's output will come close to five per cent of all cars made since century began.

Use of taxes to influence business trends may be stepped up next year.

Proposal is being discussed—though not out in open—that would provide tax incentives to companies for boosting exports.

Aim is to cut U. S. dollar loss to foreign countries.

Watch for it to come up in Congress as new legislative session gets under way in January.

Law's already in force aimed at keeping dollars here by taxing Americans on most foreign securities they buy.

Corporation taxes go above \$26 billion

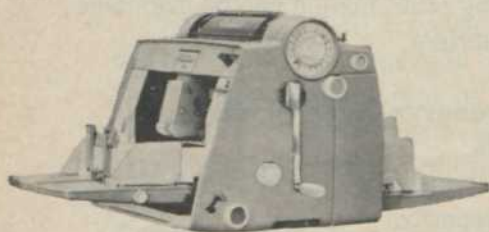


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Business opinion:

Two views of "U-2?"

THE editorial comments under the heading "U-2?" in the September issue are great.

CARROLL R. WEST
Vice President
Title Insurance and Trust Company
Los Angeles, California

In the vernacular, the view which you express seems like so much eye-wash to me.

You could equally as well say that every time a businessman enters into a contract he gives up freedom and finds that he has attached chains to himself. Do you suggest doing away with contracts?

JOSEPH EICHBERG
Atlanta, Georgia

Test informs employees

We would like to use the article "Test Your Political Beliefs" [September] as a part of a program which we are conducting to inform employees of their civic duties and to encourage their active participation in political affairs.

J. M. STONER
Community Relations
General Electric Co.
Louisville, Ky.

I want to commend you for your publication of "Test Your Political Beliefs" and "U-2?" These are outstanding items, and I am glad to see you take up these important issues.

WENDELL CHANDLER
Arkansas Transit Homes
Little Rock, Ark.

How Reds say it

As an English-Russian interpreter I'm familiar with the subject described in your excellent article "What It's Like to Trade with Russia" [August]. However, the most embarrassing mistake made in the insert at the end of the article, headed "How It Feels," sent shivers down my spine.

There was mentioned "the large portrait of Nikolai Lenin." This is the kind of mistake that can cost many a businessman a loss of his attempted business with the Soviet representatives. This sounds to Russian negotiators like it would sound to us if somebody would refer to the first President of this country as "Nikolai Washington." In the Soviet Union Lenin is quite often

referred to only as "Vladimir Ilyich," because of his first and paternal names. The Russians usually react vigorously to this and similar mistakes, because they see an insulting lack of acquaintance with the highlights of their history, which is the worst offense against their code of good relations. Imagine the feelings of an American interpreter, when he is forced by circumstances to translate similar statements into Russian.

This error ties in with two other statements on the same page: "The Russians don't always speak your language" and "American attempts at humor are likely to be interpreted literally by the Russians, with confusing results." There is nothing wrong with the "American attempts at humor." Quite often it breaks ice which nothing else could have broken. Some U. S. businessmen use it very tactfully and effectively, which is a feat for an interpreter; but some others, who should have never attempted to joke even at home, murder their chances of reaching an understanding with the Russian negotiators.

BASIL LUKIANOFF
New York, N. Y.

► While "Vladimir Ilyich" is the preferred form in Russia, "Nikolai Lenin" is more commonly used in the U. S.

Sauce for the boss

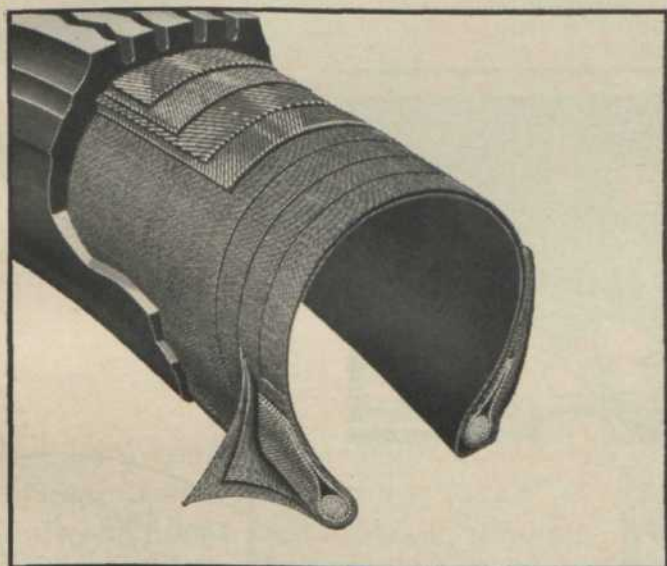
In your September issue it was interesting to note reference to the University of Minnesota's research in management training.

In my 15 years of work at Penn State in management development, it has been a common thing for companies to feel that the boys at the front-line are the ones who need the training. One is reminded of the saying: "One of us is sick and methinks it is thee."

Actually, there is need for continued management education at all levels but because of the authority relationship the prescription and imposition of training is always a top-down activity.

In a survey, over 340 engineering executives indicated a great need

A report on Goodyear's 22 billionth mile on Radial Ply truck tires



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2. Goodyear Radial Ply tires increase fuel savings as much as 10%! In effect, a Goodyear Radial Ply tire's rolling action is like a caterpillar track. So rolling resistance is sharply reduced.

3. Goodyear Radial Ply tires give safer, more sure traction! Because the tread of these great tires is a "belt" . . . with movement carefully controlled . . . the thick, wide, road-

gripping ribs hold firm for greater, surer traction.

4. Goodyear Radial Ply tires run as much as 100° cooler! With tread flexing almost nonexistent, heat-inducing friction is greatly reduced. And whatever heat buildup does occur is dissipated by the sidewalls. The result is a safer, longer-lasting tire.

5. Goodyear Radial Ply tires' softer ride protects loads and equipment! With their buoyant, more flexible sidewall construction, Goodyear Radial Ply tires cushion against shock and pounding. So load and equipment damage and driver fatigue are reduced.

Choose Unisteel tires with radial steel cord body and steel "belt." Or Flexsteel with radial fabric body and steel "belt." Both with super-tough Tufsyn rubber. Both with the ability to shrug off cutting and puncturing objects. For more facts on Goodyear Radial Ply tires, see your Goodyear Dealer or Goodyear Service Store. Goodyear, Truck Tires, Akron, Ohio 44316.

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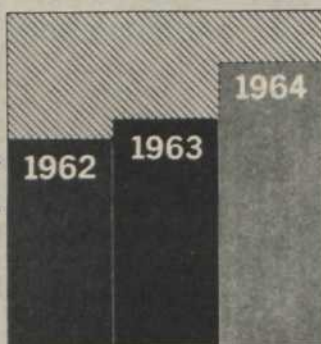


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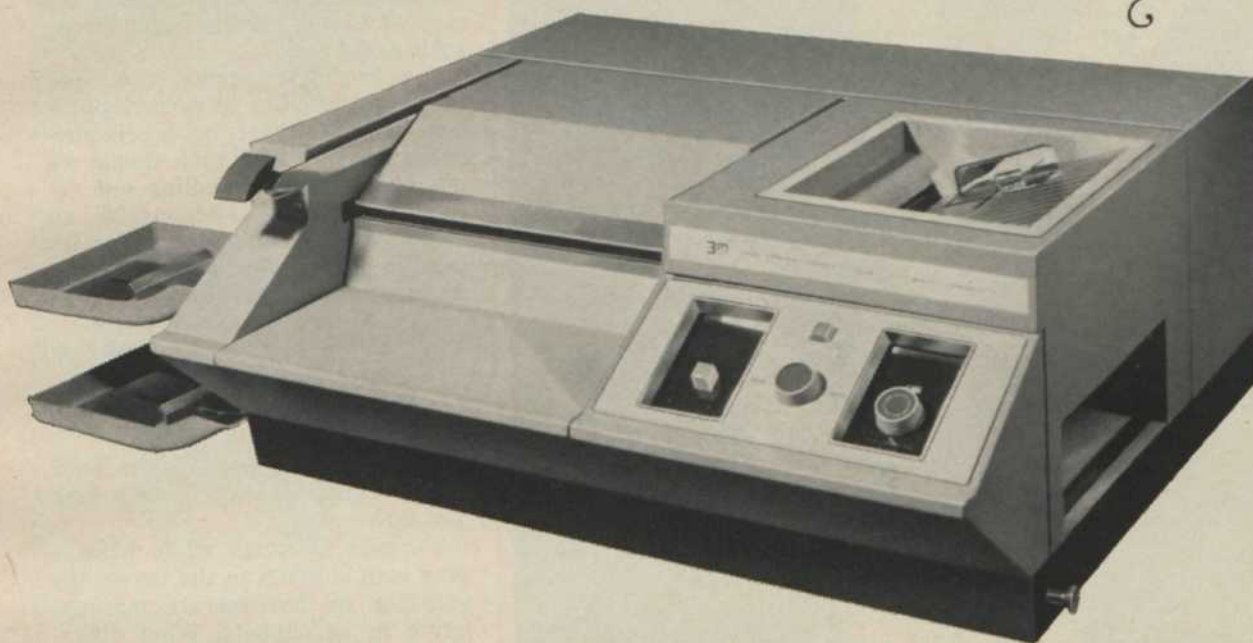
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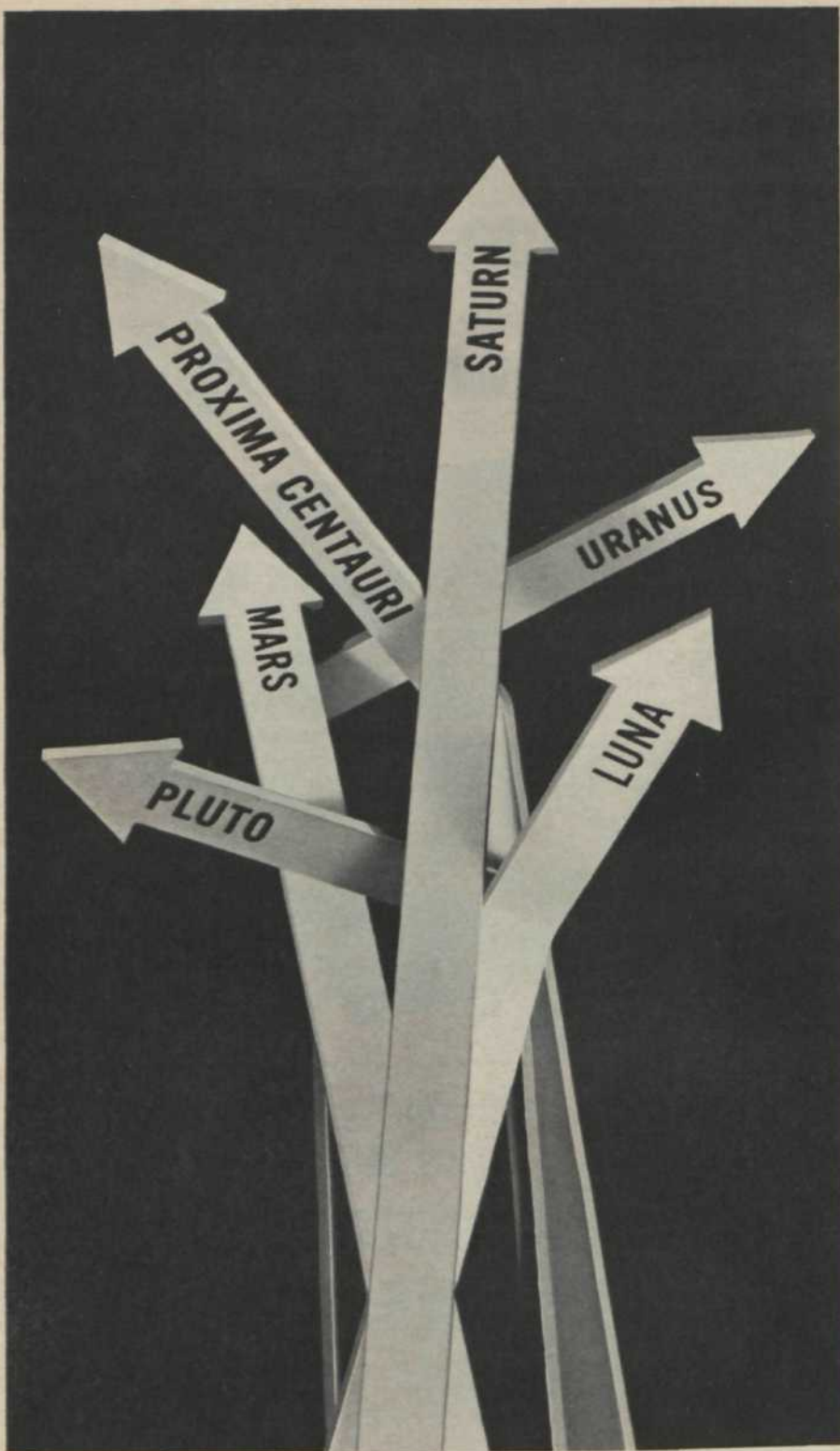
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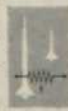
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end-product as are the units themselves. In most cases, Bourns components exceed existing standards. That is why they are specified on every major U.S. aerospace project today. And that is why they will help pave the road to the stars tomorrow.

Business opinion:

for training in management and human relations. Over 80 per cent indicated they felt a lack of exposure to such studies during their university training and recommended revision of university curriculum to enrich them in these areas.

The head is the center of control, the seat of attitudes and creator of general rapport. How sad then that fear or ignorance isolates many top men who could greatly benefit from such assistance.

Few executives would recommend treating the child to correct problems which stem from poorly oriented parents. Why then should we not be logical in handling our occupational family and involve all levels in a constant search for increased knowledge and improved management techniques.

N. RICHARD DILLER

Assoc. professor of psychology
Penn State University
Leola, Pa.

Paper control

"Federal Paperwork Wastes Your Money" [September] is very long past due.

No gain is worth while when a sane man submits to the nerve, the audacity of bureaucrats manipulating us as puppets. What difference is there between this and the puppeteering of Castro, et al.?

P. F. BENNYHOFF

Lincoln Trailer Court
Bethlehem, Pa.

Administrator agrees

The article on the federal-aid highway program [October] is an excellent summation of the very complex question that is being faced by the federal government, the states and local communities—how we can best provide the highways required by our nation's continued social and economic progress and our national defense.

Your article conveyed very well the idea that there is no simple or single answer, and that planning for a continuing highway program to meet our changing needs will require the cooperative efforts of all levels of government and everyone in the highway transportation and construction industries. In doing so, NATION'S BUSINESS made a significant contribution toward the general consideration of this problem.

REX M. WHITTON

Federal Highway Administrator
Washington, D. C.

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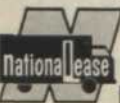
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Executive Trends

- Optimists are running scared
- Why jobs will become more exciting
- Can students solve your problems?

This is the time when managers begin to review how well their company, or division, has done in a year nearing its close.

It's also a time of personal stock-taking, and of hard thought about the challenges of a new year.

Some executives think 1965 could bring a downturn in economic activity. To counter this, they tell *NATION'S BUSINESS*, a company should even now be laying plans: How to perk up sales if they sag; how to stimulate organization-wide awareness of costs; how to avoid overhiring without shutting the door on new employees whose skills will be needed when a downturn runs its course and the economy begins another surge.

In many businesses across America you can't find pessimists. There are executives who expect business to maintain its present thrust all the way through 1965. But even the optimists aren't letting confidence dull their awareness of a continuing need for tight controls on costs and efficiency.

One president puts it this way: "I always operate on the principle that a smart business, like a smart politician, should run scared."

• • •

You will find your job more exciting in the future because people with whom you'll deal will be individuals of higher technical and intellectual caliber—a more interesting, stimulating group to be around.

This promising prediction comes from Willys H. Monroe, a vice president of Booz, Allen & Hamilton, Inc., the consulting firm. At

the request of *NATION'S BUSINESS* Mr. Monroe took a look ahead at likely changes in the manager's job, in the company, at executive training and other factors.

Here are some of the trends he foresees:

1. The biggest changes in the job of the average manager in the next five to 10 years will stem from both new techniques and differing organizational concepts. Such tools as PERT, critical-path scheduling, gaming theory, business simulation, computerized information systems and reliability engineering will enable executives to do their work with increasing precision.

2. There may be a new breed of well educated technicians on your staff to carry out the more scientific aspects of management control. Says Mr. Monroe: "We also visualize more formal recognition of such organization concepts as the executive-partner team, project teams and other forms of collaborative leadership. The effect on the average manager, if and when these things come to pass, will be twofold: first, he will be required to have a working understanding of the technical disciplines which will permit better management control, and second, he will have to learn how to work in a group context as opposed to an individual-response environment."

3. Individual performance will be evaluated with more precision than is the case today. This will be true of group performance too, as computers and more sophisticated

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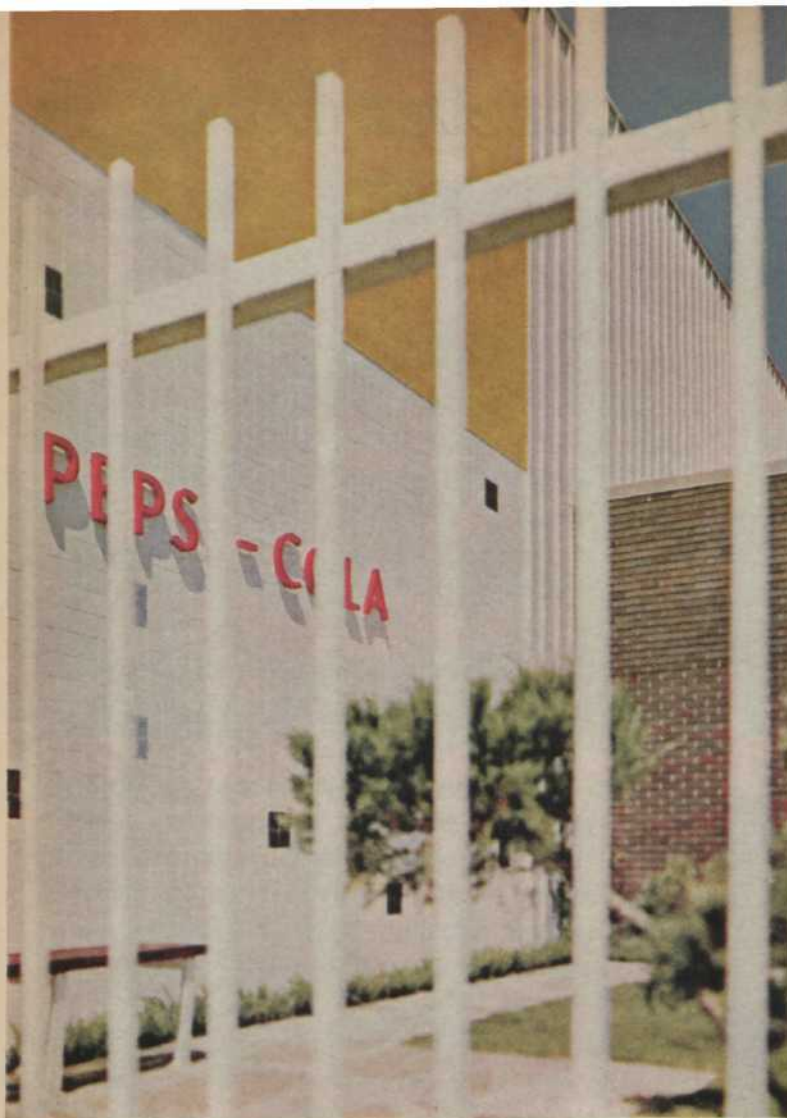
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EXECUTIVE TRENDS

continued

standards make it possible to measure how well a task is carried out.

4. Management development will encompass both on-the-job drills in working as a team member and off-the-job formal training in advanced management techniques. The latter will get more emphasis than heretofore, Mr. Monroe believes.

He sums up: "No matter how esoteric management systems or techniques become, the task of motivating, challenging, rewarding, creating a cooperative environment, organizing efforts and setting demanding goals will remain with the future manager as his primary challenge."

• • •


One day next spring seasoned executives from a Chicago company will sit around a conference table and listen to college students in marketing tell them how to run their business.

The company officials will be listening voluntarily—and eagerly—because of the values they perceive in an unusual four-year-old teaching method devised by Stuart Henderson Britt, professor of marketing at Northwestern University in Evanston, Ill.

Under the program Northwestern graduate students tackle what the companies identify as major marketing problems. These might include new products, pricing or the question of whether to switch advertising strategy. The students have access to company information and work closely both with company officials and their own faculty advisers in evolving recommendations; these are presented orally and in writing.

Among companies which already have taken part in the educational experiment are Illinois Bell Telephone Co., the Scientific Products Division of the American Hospital Supply Corporation, Swift & Co., and the Kings Men Division of Helene Curtis. For the last-named company students suggested ways to boost sales of the firm's products to the college set.

Professor Britt says the companies take the student advice seriously, and often adopt the collegians' ideas and suggestions. "In effect, the students function as consultants," he explains. "When their advice is poor or unworkable, the companies tell them so."



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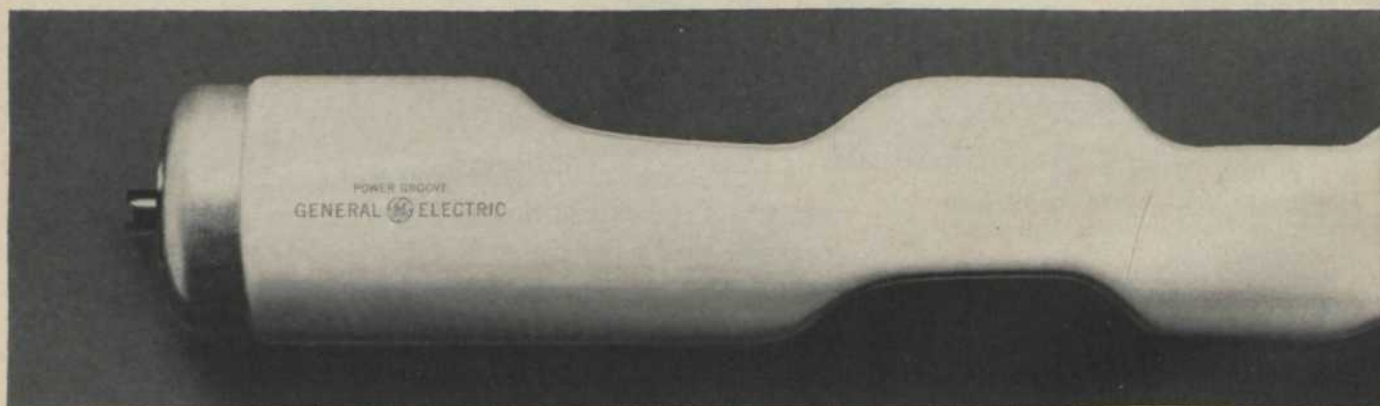
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World stage is set for our President

BY PETER LISAGOR

BEHIND the roar of campaign oratory and internal preoccupations of the past few months, the world to the government policymakers and planners remained as shaky and volatile as ever. This was emphasized with a special vividness by the upheaval in Soviet leadership which marked the removal of Nikita Khrushchev, who cut a wide colorful and unorthodox swath in world affairs for a decade and then vanished overnight.

The traffic in the Operations Office of the State Department, an around-the-clock emergency center, the so-called "critical situations list" remained about the same. In the 114 nations with which the United States deals, the rhythm of changes in regime, expected and unexpected, legitimate and illegitimate, was altered only slightly, if at all. Officials have estimated, on the basis of experience and the law of probability, that 25 to 30 governments undergo a change every year through scheduled elections, coups, revolutions, deaths, resignations.

• • •
The pace at which the world moves varies, of course, but some idea of the turnover in key personnel can be had from the fact that Secretary of State Dean Rusk, who has occupied his post a couple of months less than four years, enjoys a tenure longer than any foreign minister in the Western Hemisphere and second in Europe only to France's Maurice Couve de Murville.

Consistency is not always a shining virtue, as Emerson has observed, but continuity in the affairs of nations has its uses, one of which is stability.

It used to be said of American policy that in West Germany it was based upon the immortality of Konrad Adenauer, and in India upon the timeless rule of Nehru. Adenauer retired and Nehru died. Yet both governments survived, without a violent upheaval of policy or personnel, because the reins of power continued to be held in the same political party. The transition also spoke well for the seeds of democratic

government planted in West Germany by the United States, Britain and France, and in India by Britain.

What will happen with the departure from the scene of other leaders cannot be foretold with any certainty, however. If Portugal's Salazar and Spain's Franco were to leave together, the best informed guess among Washington officials would be that the Iberian Peninsula probably would be wracked by instability. The same seems true in the case of Generalissimo Chiang Kai-shek on Formosa.

More important, though, than the role of strong individuals in the course and pace of events overseas is the aggregation of forces, political, economic, social and philosophical, that often moves in unpredictable directions. For example, what prophet would have been bold enough to suggest that events in the turbulent Congo would make possible the return of Moïse Tshombe, the exiled leader of Katanga secessionist



The "critical situation list" at the State Department's emergency center remains active in a changing world

efforts? He came back not as a provincial leader but as the Prime Minister of the Central Government in Leopoldville, which he had fought so vain-gloriously. U. S. officials who opposed his activities in Katanga supported him now in the belief that stability depended on him.

The men who must chart the trend of world

Peter Lisagor is White House correspondent for the Chicago Daily News.

changes find themselves hard-pressed to define and analyze the exact nature of what is happening in Eastern Europe. They believe the word satellite is no longer applicable to most of the communist states in that region, with the notable exception of East Germany. It is a uniform judgment among Washington's Sovietologists that Moscow cannot now dictate policy to Poland, Hungary, Rumania, Bulgaria and Czechoslovakia unless Khrushchev's successors are prepared to back up their dicta with force, if necessary—and it may become necessary.

Yet none among these experts thinks that any of the countries is ready to abandon communism. In fact, the one country that has defied the Kremlin more openly than the others, Rumania, is still regarded as the most repressive state in Eastern Europe. Yet it has sought trade deals here and pursued fresh contacts in the West with the flair of a liberated prisoner, despite its resemblance to the tightly controlled, police-state model of Stalinist Russia.

U. S. policy remains aimed at encouraging this assertion of independence from the Soviet Union, even though it may not produce open societies, free elections and immediate allies in any foreseeable time. Without reliable satellites on its western borders, the Kremlin is thought unlikely to risk military adventures against the free world. Indeed, the situation is so uncertain and unreliable, from Moscow's standpoint, that the Kremlin masters have been seriously impeded in their attempts to organize a conference of Communist Party leaders in the world.

The aim of the meeting would be to condemn the Chinese communists, who have challenged Soviet leadership in a bitter, vituperative, seemingly endless vendetta. But the Kremlin has had trouble winning over the Eastern European countries to the idea that a conference of this nature is essential. The only man Russia probably can count on with any assurance is Eastern Germany's Walter Ulbricht, an odious puppet who has been virtually isolated by the leaders of the other communist states in Eastern Europe.

Latin America has been comparatively stable during the period of the U. S. election interlude—which is merely to state that no earth-shaking revolution rocked the southern half of this hemisphere and not to suggest that the ingredients for coup and violence vanished.

Unfortunately, it still is true in some Latin countries that on any given night, when a couple or three colonels and a bottle get together, the regime is in trouble.

The situation south of the border was deemed sufficiently stable to induce French President Charles de Gaulle to spread his imperial wings on a wide-ranging tour of Latin America, with consequences still difficult to appraise but causing no acute discomfort in Washington.

The headache for which no remedy has yet worked has persisted in South Vietnam, where the coup has

become endemic (not to say epidemic) and where the war against the communist Vietcong guerillas is nearly wholly supported and encouraged by American military advisers and technicians, American supplies and materiel, and American hope that the Vietnam defenders will stay the course. Until now, U. S. policymakers have rejected the notion that the war should be transferred to American fighting men altogether instead of being half-in, half-out and thus consigned forever to a teeter-totter role in which the most that can be expected is that you will wind up where you started.

The American experience in the Korean War has made it unlikely that any U. S. leader will permit troops of this country to get bogged down on the land in Asia.

Shortly before his death in Walter Reed Hospital here, Gen. Douglas MacArthur received a visit from President Lyndon B. Johnson. In the course of their brief conversation, the old commander made one of his comments even more memorable than it might otherwise have been when he addressed the Chief Executive of the United States as "son." What he said was, "Son, don't you ever get tied down in a land war in Asia."

Coming from the man who commanded U. S. land forces in the Pacific during the second World War and who was the first commander of U. S. and U. N. forces in Korea until his dismissal by President Truman, the advice was unforgettable.

But there have been others equally opposed to being caught in the quagmire of Asia, and thus possibly repeating the Korean experience wherein American soldiers were pitted against the inexhaustible supply of Red Chinese fighting men. They are members of the "Never Again Club," one of whose founders is Gen. Maxwell D. Taylor, the Ambassador to South Vietnam, who also commanded the U. S. force in Korea for a time.

After the U. S. air strike against communist torpedo boat bases in the Gulf of Tonkin late in the summer, and the reported instructions that carrier-based aircraft of the U. S. Seventh Fleet would henceforth practice hot pursuit against enemy aircraft attacking American ships, it has become clear that Washington authorities will rely upon its powerful sea and air arm to punch back at the communists, not turn the rice paddies of South Vietnam into a G.I. slogging course.

To most experts on the Vietnam situation, however, the solution lies not so much on the battlefield as it does in instilling in the Vietnamese leadership and in the people of the south the conviction that their struggle is one for liberty.

In time the Vietnam crisis will be settled at the conference table most likely, but it will, like Cyprus, Cuba, Berlin, the Congo and other chronic sore spots in the world, probably remain on the critical situations list in the State Department for years to come. For as a wise old European statesman once told an American visitor, "It was unfortunate that when God limited the intelligence of human beings, He also didn't limit their stupidity."



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Common Market must resolve basic contradictions

BY FELIX MORLEY

THE PHYSICAL INTEGRATION of the Common Market countries—France, Germany, Italy, Belgium, the Netherlands and Luxembourg—proceeds apace. Soon it will be possible to drive over connected super-highways, from Hamburg in northern Germany to Naples in southern Italy, without delay from traffic lights.

Consolidation of the railroad network, now largely electrified, is even more advanced. "Europa" trains, freight or passenger, cross frontiers within the European Economic Community almost as readily as ours pass from State to State. Rolling stock is pooled and parts have been made interchangeable. A French freight car, sent into Belgium, may there be reloaded for Holland, West Germany or Italy.

This helps to explain why the volume of commodity shipments among the six EEC countries has more than doubled during the past five years, while total world trade has been rising less than one quarter of that amount. Statistically, the success of the Common Market is incontestable. Its advancing prosperity is obvious to those who, like myself, make annual visits to this area. But this year has seen a setback going deeper than the current French protest on German agricultural policy.

It is exemplified by the inability of the cooperating governments to achieve any monetary unification. For currency purposes the frontiers are still barriers. The Italian businessman, seeking orders in France and Germany, needs no passport. But he must still change his liras into francs at the first border, and then these into marks as he goes on.

With recent sharp inflation in Italy and France this imperfection has become a serious problem. It has raised the question of whether the customs union can continue without currency unification. And the latter implies a degree of political federation which Europe at present is unlikely to achieve.

Very practical reasons make the future of the Common Market of great interest to American business. There is now a clamorous and glamorous European market for countless American products, especially household conveniences. To supply these competitive-

ly, however, will among other factors require sales effort economically organized on a continental basis, as in our own unified domestic market.

The present European situation becomes more clear by recalling our own experience. In 1787 the Constitution established a customs union among the original 13 States. None then in existence, or thereafter created, could erect trade barriers against another State. But this economic integration was solidified and promoted by political union. A single central government was given originally limited power over all.

Through the EEC six European countries have now gone far to achieve a customs union. And seven others



EEC countries and their associates (in solid color) are better organized than those of EFTA group (light color)

(Great Britain, Denmark, Norway, Sweden, Switzerland, Austria and Portugal) are more loosely grouped in the potentially rival European Free Trade Association (EFTA). This is progressively easing trade restrictions for the industrial (not agricultural) products of its membership, but is not establishing a single external tariff wall, as is the EEC. Greece and Turkey are now associated with EEC; Finland with EFTA.

Of the two groupings, the EEC is far the better organized. At Brussels its permanent High Commis-

TRENDS: STATE OF THE NATION

sion employs an international secretariat of over 2,000 specialists, who have done much to harmonize the commercial law and trade regulations of the six member-states. But EEC, and far less EFTA, has nothing that can be called a central government. It has no effective legislative body, nor even unified banking.

With the big exception of agricultural products the European customs union is now approaching completion. Next year, according to present schedules, the last internal barriers on manufactured goods will be eliminated. The Volkswagen will then sell in Italy as freely as the latter's Fiat, and vice versa. Consolidation of external tariffs, however, will come less quickly.

Despite this economic progress there has been no parallel unification of fiscal policies. It is as though the States of our Union, having eliminated tariff barriers against each other, should all have different currencies, each with a variable purchasing power.

When there is inflation in the United States it at least hits the entire country uniformly. The cost of living will rise in California approximately as it does in New York. In the Common Market area there is no such uniformity. During the past two years consumer prices in Italy have been rising twice as fast as those in West Germany. Such dislocations threaten the economic stability of the customs union, and cooperation between the central banks of its member governments has been powerless to prevent them.

From the outset the Common Market countries have had complete currency convertibility, one with another. The fixed rates of exchange have facilitated long-range contracts and worked well as long as inflation was dormant. But when the internal purchasing power of one Common Market currency drops sharply, as compared with others, this fixed convertibility is no asset.

Italian typewriters, to illustrate, now cost about 10 per cent more to produce than a year or so ago. To sell them in Germany at the same profit therefore requires a substantial mark-up. But as prices in Germany have remained more stable its own excellent typewriters have gained competitive advantage through the sharper Italian inflation.

Here is a one-way trade block which did not exist before the first World War, when the idea of a European customs union was a visionary dream. Then, however, the currencies of these countries were all tied to gold, which automatically prevented the present unbalanced incidence of inflation. Nor is there much comfort in the fact that unprecedented prosperity has stimulated the problem.

It is aggravated because, under the 1957 treaties which launched the Common Market, there is now almost unrestricted passage of labor among all the EEC countries. An Italian mechanic is as free to leave Turin for a job in Stuttgart as is his American counterpart to move from Atlanta to Detroit. Moreover, in making such a change, the Common Market worker will now take all his social security and pen-

sion accruals with him. This means that when an Italian manufacturer tries to combat inflation by paring labor costs he will face not only union opposition but also the loss of his more enterprising workers by emigration to a neighboring country with a more stable price situation.

The existence of separately managed currencies within a customs union is close to being a contradiction in terms. And the difficulty now apparent was not adequately foreseen in the early stages of Common Market development. Its recent eruption, with the sharp inflationary price rises in Italy and France, is causing much agonizing reappraisal and some unexpected consequences.

One of these is the politically significant increase in East-West trade. Price is not necessarily the determinant in Common Market commerce with the communist bloc and pressure to increase these sales mounts as internal trade routes tend to clog. Nothing is more startling to the American visitor than the large number of Russian ships, from tankers to luxury liners, to be seen today in every sizable Common Market port.

The Common Market countries now possess gold reserves of approximately \$13 billion, not counting their drawing rights on the somewhat higher amount of the precious metal still held by the United States. So some European economists suggest that the EEC should return to the gold standard, thus getting rid of inflation regardless of the cost in temporary contraction and depression. If this is too drastic, and politically it certainly would be, then a single Common Market currency system is recommended, or at least a unified fiscal policy in regard to governmental debt formation, interest rates and kindred matters.

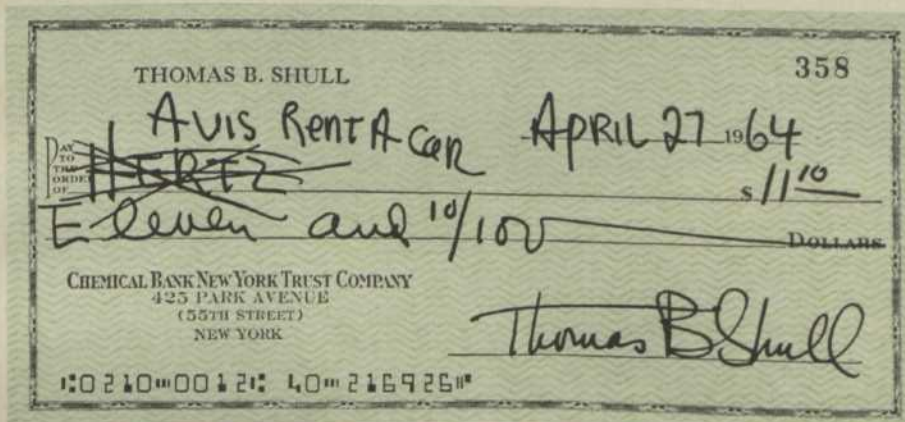
All this implies some counterpart of our Federal Reserve system and, many believe, a single central bank for the entire customs union. That, however, can be accomplished only by joint political action and this is not to be expected as long as the cold war atmosphere continues.

The difficulties hampering political development of the EEC are too numerous even for summarization. But whether the issue is its relations with EFTA or the reunification of Germany, one factor is common to almost every problem. It is the hostility and mistrust with which Washington and Moscow regard each other. This, for instance, is what makes it impossible for the European neutrals—Austria, Finland, Ireland, Sweden and Switzerland—to join the EEC until and unless the latter is dissociated from NATO as a military alliance. Yet if these neutrals do not join they must confront the unified tariff of the Common Market.

The economic unification of Europe has gone too far to be stopped, yet cannot now go further because of political difficulties some of which focus outside of Europe. That is why there has this year been such intense European interest in the American election. Only if White House and Kremlin come to some accord, it is said, can the Common Market be expected to move on from its present stagnation.

For more on the Common Market and its prospects, see article on page 38.

How do you think of first
when you think
of rent a cars?
Certainly not Avis.



How one of our customers made out his check.

It must be nice
to be a household
word. Like Jell-O,
Coke or Kodak.

But we're not.
Avis is only No. 2
in rent a cars, and

it's always the big fellow you think of first.

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Friden*

Federal health estimates — 300% wrong

Medical cost expert shows government figures far too low

THE TRUE COST of the proposed federal health plan for the aged can now be told.

If enacted into law, the federally administered plan paid by social security taxes actually would cost at least three times what the bureaucrats say it would and eventually perhaps 10 times as much.

This is the conclusion of an authoritative, non-partisan analysis of the proposed government health care scheme—one of the major economic and social issues of the day.

The analysis was made by a nationally respected expert who has lived with health and welfare cost estimates during nearly 35 years of government service. He has just retired after failing to persuade federal welfare officials to use what he considers realistic methods to find the cost of government health care.

The authority, Dr. Barkev S. Sanders, made a number of the original cost estimates for the U. S. social security program 25 years ago. He is a medical statistician, sociologist, psychologist and attorney.

In his analysis for NATION'S BUSINESS, Dr. Sanders concludes:

"On the basis of all available evidence, even in the

first year (of the proposed federal aged health care program) its cost would be at least three times the estimated cost. It is more probable that the multiplier would be four."

Dr. Sanders points out that the British National Health Service, a more comprehensive socialized medical plan adopted in 1948, ran up expenditures the very next year that were three times the cost estimates.

Looking into the future, Dr. Sanders judges that if the U. S. scheme "comes into operation in 1965, the expenditures for it 15 years later would surely be more than seven times the latest government actuarial estimate, and it is probable that it would be 10 times more in terms of 1964 dollars."

In part, this judgment is based on the experience of the British health plan which, despite restrictions imposed when actual spending far outran estimates, cost \$2.9 billion in 1963.

This was seven times what the original expense was calculated to be.

An American plan of medical care for the aged certainly would be expanded to cover more medical costs and younger beneficiaries than currently pro-



PURCELL—PIX

Barkev Sanders, noted medical and welfare statistician-sociologist did study on which this article is based

posed, as both opponents and proponents have said. And the wage base on which the social security tax is figured, as well as the amount of the tax itself, almost certainly would be enlarged in line with the historical development of the social security program.

The proposal—which certainly will be re-introduced in the next Congress—is the remnant left from elaborate and comprehensive government medical and health plans proposed in the 1940's.

When Congress repeatedly beat back these attempts at broad coverage of health services, the strategy of the government health advocates finally shifted to a flanking movement. This was the present limited hospital, nursing facility and home-care coverage plan for the aged.

The health plan for the aged in recent years has been embodied in the King-Anderson bill. It was approved by the Senate this year, but not the House of Representatives. It is popularly known as medicare although it makes no provision for paying doctors' bills. And it offers potential beneficiaries the choice, cafeteria-style and irrevocably, of 45 days, 90 days or 180 days of hospital care.

Officials of the U. S. Department of Health, Education and Welfare, who have backed the limited health program and made the estimates of its costs, have testified to Congress that the social security tax

would not have to be raised more than about one half a percentage point of the taxable payroll for both employee and employer. The dollar estimate these officials have offered over the years has ranged between \$1 billion and \$1.5 billion annually for the early years of operation. Even by the year 2000, they have declared, the cost would not exceed \$2.5 billion annually.

Dr. Sanders' analysis for NATION'S BUSINESS did not attempt to arrive at a precise dollars-and-cents estimate, since there are too many future variables for anyone to calculate specifically. But his analysis does show that information and methods have been available to federal officials for years which show their calculations are low to a remarkable degree.

He states in his analysis:

"With respect to its costs, the roots go back again to the early Fifties. At that time, the Division of Research and Statistics of the Social Security Administration was estimating the cost of hospital care for the aged as one half of one per cent of the payroll. And to validate their claim they made a survey of hospital utilization by the aged in 1952.

Hospital use in 1952 is still used as the only basis of cost estimates for more recent programs, including the most current congressional bill.

The federal welfare estimators calculated low and high figures on potential days of hospital use by aging beneficiaries.

But Dr. Sanders points out:

"The low cost estimate includes no upward adjustment for increased hospitalization under a federal hospital insurance program, while the high cost estimate assumes at most an upward adjustment of 24 per cent.

"These figures indicate that the estimators of medicare costs believe that hospital care received by the aged may be sufficient now, or that at most utilization would be increased by 24 per cent under the proposed program. The effect of medicare on utilization as reflected in these cost estimates would hardly support the contentions by the advocates of this program of dire need on the part of the aged for additional hospital services.

"The basic figures giving days of hospitalization were derived from a 1957 Old Age, Survivors and Disability Insurance beneficiary survey. This beneficiary survey missed 12 per cent of the interviewees in the sample. But nowhere has any attempt been made to determine the characteristics of these missing persons. It is quite plausible that many of these might have been missed because they were confined to some medical institution (including short-term hospitals), or had gone to live with relatives because of infirmities."

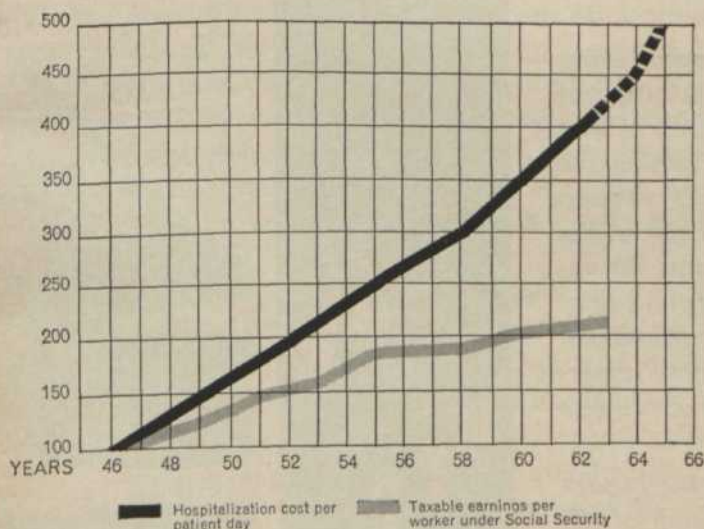
This one deficiency alone, if corrected, could add

Big jump in hospitalization cost revealed in index of Canadian health program over five years

Provinces	1959	1960	1961	1962	1963	1964
Newfoundland	100	165	178	219	262	305
Prince Edward Island	—	100	226	309	374	430
Nova Scotia	100	519	610	755	860	965
New Brunswick	—	100	173	209	238	276
Quebec	—	—	100	524	637	817
Ontario	100	547	643	795	929	1035
Manitoba	100	158	183	213	243	275
Saskatchewan	100	159	171	189	217	253
Alberta	100	179	193	225	294	323
British Columbia	100	160	176	202	235	264

—All provinces did not begin program the same year

Rise in U. S. hospital cost shows social security tax won't pay for hospital care



considerably to the volume of hospital services reported.

"Moreover, even the most perfect household survey attempting to record completed hospitalization for a 12-month period is susceptible to large losses, especially if it is for the aged, a significant proportion of whom are institutionalized at a given time."

Dr. Sanders says he spelled out these deficiencies in an official memorandum prepared in connection with the 1952 survey of hospital utilization of the aged, the results of which were to be used as a measure of such use under a government plan.

The character and magnitude of these deficiencies were explained even more explicitly, he says, in a 33-page memorandum dated December 3, 1962, which he addressed to the Chief Actuary of the Social Security Administration with a copy to the Commissioner of Social Security.

Hospital load miscalculated

Free or partially paid hospital care would sharply increase the load of hospital patients over current levels, Dr. Sanders also notes.

"Such an increase would be most pronounced for the initial year, but its effect would be evident at least for the first four or five years. This increase would not be limited to persons without voluntary, private insurance, as official estimates seem to indicate, but would include those presently insured as well."

Dr. Sanders explains that this seems to be another instance of contradictory thinking by the welfare officials. Despite their frequent claims of the deficiencies of existing private insurance protection, their estimates of the costs for a federal program are based on the assumption that those aged presently insured get all the hospital care they need.

"The full impact of medical care insurance in the first year or two," he states, "is reflected in the proportionate increase in costs for those Canadian provinces for which both the medical insurance program and the Dominion contribution began after 1958. For these the range of increase in per capita costs between 1958 and 1961 is between 51.1 and 98.7 per cent.

"Some of this increment is caused by the increase in hospitalization costs, but much of it results from increased use by patients.

"Considering the formula of Dominion payment, which encourages restraints on costs, as well as the fact that provinces remain directly responsible for about half of the insurance costs, and that the level of occupancy in Canadian hospitals is high, it is my opinion that increase in hospital use as a direct consequence of the most recent U. S. federal hospital care plan would be at the very minimum 30 per cent, more probably 60 (continued on page 112)

HOW TO WATCH THE WHITE HOUSE

This month's election will create problems of transition regardless of who wins, says noted authority on the American presidency

WHETHER the American people elect Lyndon Johnson or Barry Goldwater, an important transition in the presidency will follow.

The exciting events of the Kennedy Administration and Johnson take-over have focused more national attention than ever on the White House, and greatly increased the number of observers and critics of presidential performance.

The great thing about President-watching is that it is open to any number or age group, either sex, and any level of sophistication or seriousness. Novices can view the political scene as a contest of wits and power between the good guys and the bad guys, casting the President as hero or villain as they prefer. Some, especially women and young people, concentrate on the domestic and social side of the presidency. The Kennedys and Johnsons have offered unusual opportunities for comparative judgments on such matters as child-rearing, pets, clothing, interior decorating and entertainment preferences.

More serious observers of the presidency look at the more important things: How the President uses the powers of his office, gets

LAURIN L. HENRY, the author, is a political scientist on the faculty of the University of Virginia. A former member of the staff of the Brookings Institution, Professor Henry is the author of "Presidential Transitions," a book published in 1960.



along with Congress, foreign nations and the press, carries out his policy program and shapes the institutional apparatus of the office.

Occasionally there are White House scenes of crisis, tragedy or triumph that unite and move Americans of all ages, classes and political persuasions. This is as it should be, for in a sense we are all part of the presidency. Each of us in some degree influences the choice of the man who serves there and what he can do in the office. What happens to and in the presidency can profoundly affect us all.

Events to be observed around the White House in the next few months largely depend, of course, on who gets elected. A Goldwater victory would mean a full-scale change of administrations—a process that always shakes the whole government and entails a certain amount of risk for the country as the price we pay for the privilege of changing our leaders. If Mr. Johnson is elected the transition from an administration inherited from John F. Kennedy to one shaped by the President in his own right is not likely to be so sudden or dramatic, but there will be important problems to be faced and changes to be made.

Either man will meet the perennial problem of adjusting the organization, staffing and methods of the presidency to his own work habits and the evolving character of the government and its commitments at home and abroad. The supporting institutions of the presidency—the White House staff and several agencies comprising the Executive Office—are probably due for some overhauling in any event.

If LBJ is elected—

If President Johnson wins, his most obvious first move will be to shuffle the Cabinet and supporting corps of top political executives. Some months ago it was generally assumed that if Mr. Johnson were elected he would quickly replace most of the Kennedy Cabinet. Recently the President is reported to have given such leading figures as Secretaries Rusk, McNamara and Dillon assurances of his confidence. (Baseball club owners customarily do this, too, just before firing the manager.)

Even if he wants them, however, Mr. Johnson is unlikely to persuade all the department heads to remain in their wearing jobs. A permanent replacement for former Attorney General Robert F. Kennedy is needed, and several changes for both political and personal reasons seem likely at the top of other departments and noncabinet agencies. Important subcabinet vacancies have been accumulating for months, and more will come through natural turnover at the end of the term.

It is not yet clear whether President Johnson, with his congressional and political background, appreciates or knows how to go about finding top-drawer executives from other circles. Fortunately, most agencies were initially well staffed at the second and third levels and now contain some highly promotable people.

New appointments must be handled with special delicacy because of their bearing on the political future of the Johnson Administration and what might come after it. There are tensions between the Kennedy and pre-Kennedy liberals and (continued on page 96)



PHOTOS: YOICHI OKAMOTO, GEORGE JAMES, CARL PURCELL

NEW WEATHER DISCOVERIES WILL SERVE YOU

The nation's top weatherman tells how scientists expect to make forecasting more useful

A QUIET REVOLUTION is under way in meteorology—the science of weather forecasting or, more properly, of the atmosphere and its phenomena.

It's a revolution using the new tools of computers, rockets and satellites as well as mundane, painstaking observations of rainfall and temperature. Even seemingly limited victories in the revolution can mean huge dollars-and-cents gains for business, governments and other segments of the economy.

By extension of accurate weather forecasts to just five days ahead, savings in the United States alone could total \$3 billion in agriculture, \$100 million in surface transportation, \$75 million in retailing and \$45 million in the lumber industry, accord-

ing to estimates by the National Aeronautics and Space Council.

At the spearhead of the meteorological revolution is Dr. Robert M. White, chief of the U. S. Weather Bureau, who completed his first year on the job on October 1. A professional meteorologist, Dr. White was president of the Travelers Research Center, Inc., of The Travelers Insurance Companies immediately before becoming the nation's top weatherman.

In this NATION'S BUSINESS interview, Dr. White tells what is—and isn't—immediately ahead in weather forecasting, control of the weather and better services for business and the public.

Dr. White, how far ahead can you now accurately forecast the weather?

Accuracy is a relative term. We have considerable skill in forecasting day-to-day weather changes out to about 24 hours. The skill factor begins to drop off after that. We still have measurable amounts of skill out to about three days. We can produce useful weather information beyond such periods.

Today's forecasters, such as those under Dr. Robert M. White (center), chief of the U. S. Weather Bureau, are using an assortment of computers and other new tools to provide better user services. Satellites spot hurricanes as they did Hilda last month (far left). Scientists search for ways to warn against tornadoes (left), control weather and aid businesses which depend on accurate, speedy information (right).





When we get beyond three days, we must take into account factors such as heating of the atmosphere and the interaction between the atmosphere and the oceans. We must also have adequate global weather observations. These factors require more data and more understanding than we now have. Our mathematical forecasting techniques are useful to about three days without such data.

What is the Weather Bureau doing to extend these forecasts and to make them more accurate?

Perhaps the most important research activity now going on in the Weather Bureau is directed at these problems. Our Geophysical Fluid Dynamics Research Laboratory in Washington is attempting to develop mathematical models of the entire global atmosphere which will be sufficiently realistic so we can use them as a basis for operational day-to-day forecasting.

We feel that this kind of research is the key to improved long-range forecasting.

After a year in command of the Bureau, what are your other plans for improving its forecasts?

Our main thrust over the coming years will be in the full use of modern technology which exists all around us. New and more powerful computers, better communications systems and new observational systems such as satellites will be fully exploited to improve our services.

Will this produce a method of near-perfect forecasting?

I think we ought to face the fact that for the foreseeable future there will continue to be a large measure of uncertainty in weather forecasting. This is because it is highly unlikely that we will ever be able to observe the atmosphere perfectly or achieve a complete understanding of atmospheric processes. Our objective is to reduce this measure of uncertainty as much as we can.

Our theory tells us that, if we could define what we call the initial *(continued on page 44)*



PHOTOS: ROBERT PHILLIPS, WIDE WORLD, UPI

Europe brews trouble for U.S. companies

The Economist Intelligence Unit, in this report, finds outlook cloudy, but sees bright spots, too

THE FAMILIAR SPECTER of politics is haunting the growth of European business. Perhaps the sharpest threat grows out of the angular shadow of France's President Charles de Gaulle.

The general's nationalism is thwarting the drive towards European political union, chiefly because full union with Gaullism would be about as comfortable, many think, as bedding down with a cactus.

As a by-product of this, the general may make European countries more protectionist in their trading policies with the outside world, including the United States. Moreover, de Gaulle is indirectly threatening to increase the cartelization of European industry. This would cause a growth of market-sharing arrangements which could hurt United States exporters. General de Gaulle has even threatened to leave the Common Market unless it drafts a farm policy that satisfies France.

None of these dangers should be exaggerated. But four out of every 10 dollars of world imports are bought by West European countries. They are still just about the fastest growing market in the world (they bought \$8.2 billion of manufactures from North America in 1963, \$7.5 billion in 1962).

The Common Market started as a drive toward the vision of European political unity and a commercial customs union with no tariff barriers between the six members, but tariffs against the rest of the world.

Today the first vision has faded. The six members (Germany, France, Italy, Belgium, Holland, Luxembourg) will not achieve real political unity. Certainly they will not achieve it so long as Gaullism is alive, and it is beginning to look more durable than de Gaulle himself. The proud old general is founding a dynasty, with his protégé, the former Paris banker, Premier

Georges Pompidou, as his most probable heir, and with the now very nationalist French civil service as the permanent force which may carry his policies into the future.

But even if the vision of political unity among the Six fades, the move towards a customs union among them will presumably go on. There is a Treaty of Rome laying down the stages by which it is to be achieved, and treaties have a habit of being carried out. But the descent from yesterday's Olympus of idealism towards today's flatlands is having a deadening effect on the once-inspiring Eurocrats of the European Commission at Brussels. And this change in the balance of trade policy-making power within Europe has important implications for U. S. businessmen. Many American companies may have to change their business strategy if they are to avoid the disadvantages of the new situation.

Two years ago the Eurocrats of



WIDE WORLD

Gaullism's influence on the politics of Europe will cause repercussions in both the European Common Market and in the pattern of American trade with the Continent

Brussels were young lions in control of a great venture that they believed was to change the history of the world. Today they are in rather nervous charge of fulfilling a much-niggled-over commercial contract for progress towards an internal customs union. Much of the idealism and confidence have drained out of them. When this happens to a body of men, it is difficult to prevent the economic go-getting drive from going out of them too.

The Eurocrats do not now want to turn the Six into an inward-looking, protectionist group. But their main concern is with not annoying the right-wing establishments in the capitals of their constituent countries. They have decided that the balance of political power in Europe lies definitely—for the time being—on the right.

This, in turn, is having a debilitating effect on the current tariff negotiations at Geneva; the talks seem likely to fail. Because Ger-

many, whose manufacturing costs are competitive, wants world-wide cuts in tariffs on manufactured goods (although less competitive France and Italy often do not), some sort of gloss may be put on the failure. There will be tariff cuts of some sort. But Germany and its partners are protectionist in agriculture and will remain so.

We suspect that the new balance of policy-making power in the Common Market may have the long-term effect of slowing down the rate of internal industrial growth in the Market countries. Slowing down is a strictly relative term. In the decade 1953-63 industrial production increased by a phenomenal 103 per cent in Italy, 107 per cent in West Germany, 94 per cent in France, 78 per cent in Holland and 52 per cent in Belgium. This compared with 36 per cent industrial growth in the United States in the same period and 35 per cent in Britain. As industrial production

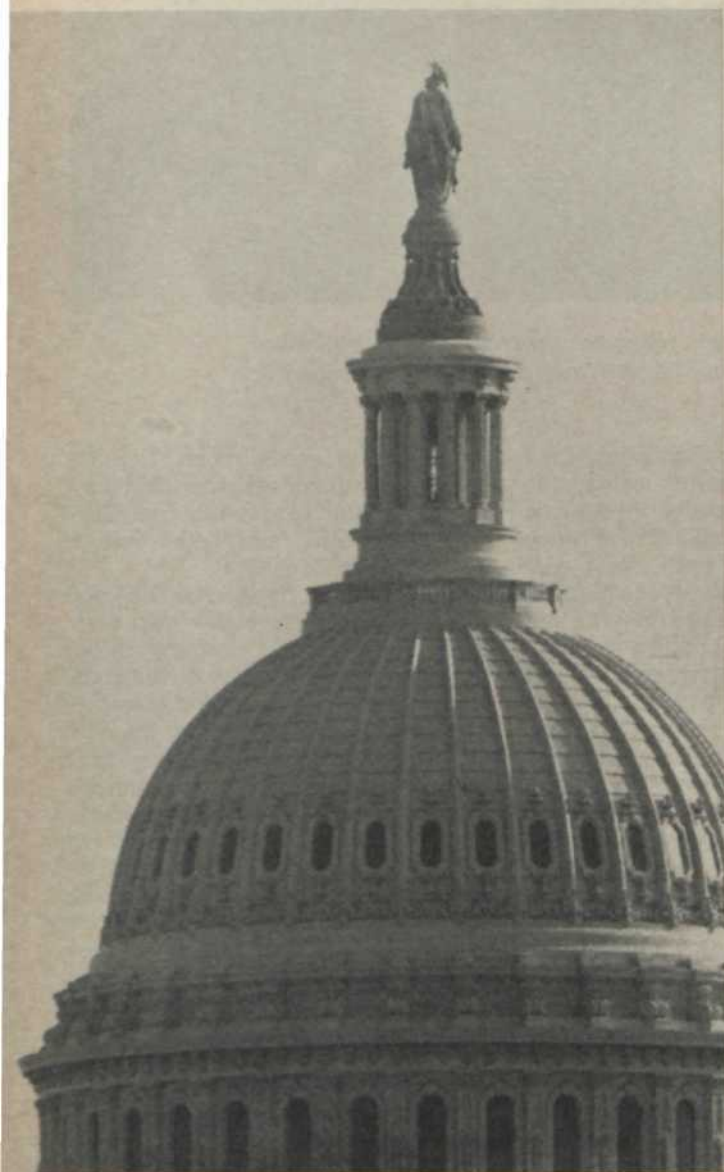
rose, imports also climbed. Imports of merchandise into the Common Market countries amounted to \$14.1 billion in 1953, and \$40.4 billion last year.

But the new danger to the Six, which has become obvious as they have moved toward customs union, is that production costs in the individual countries have not marched in line with each other; and the new atmosphere at Brussels means that those countries which do run into problems of uncompetitive costs may be told more and more to try to solve those problems by restrictionist measures. This has already happened in Italy, which incurred grave balance-of-payments troubles earlier this year for two reasons. First, its costs had risen more than Germany's; secondly, the fact that the new left-of-center government in Rome is regarded with some suspicion by North Italian businessmen led to some flight of

(continued on page 102)

What's right and wrong with Congress

Director of a new study explores both the strengths and weaknesses of world's most powerful legislature



THE NEWLY ELECTED Eighty-ninth Congress will march into Washington to a drumfire of criticism and demands for reform.

Even though it is supposedly the most representative and certainly the most democratically elected branch of government, critics will charge it is not the most responsive. It happens to every new Congress.

Much of the griping comes from those who want more and quicker social and economic action, and want to change the rules to get it. Some complaints about Congress are justified. But even though everybody has his own idea of what's wrong with Congress, there's a vast lack of knowledge on how Congress really works, according to the man who heads a new \$230,000 American Political Science Association study of Congress sponsored by the Carnegie Corporation.

In this article, Professor Ralph K. Huitt of the University of Wisconsin, director of the study, tells why Congress is under attack and what the prospects are for change.

So-called reform will be an issue before the new Congress even though the past Congress enacted more historic legislation—from income tax reduction to civil rights—than any other Congress in recent times.

"I don't see how anyone could say the Eighty-eighth Congress didn't act quickly on what the Administration wanted," House Majority Leader Carl Albert told NATION'S BUSINESS. "Congress is up with what the country wants on most issues, I'm sure, though large political machines in big cities and labor are probably ahead of the rest of the country.

"As for the rules and makeup of Congress, it would be much easier for (continued on page 104)

Moves to reform Congress and its various functions and procedures (right) will begin anew next year

PHOTOS: FRED MARCOIN, GEORGE TAMES, ROBERT PHILLIPS



A LOOK AHEAD

Who will buy new machines

(Construction)

Unions eye statehouses

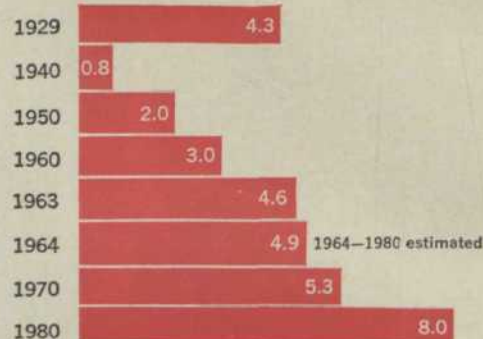
(Labor)

Peaceful A-blasts coming?

(Natural Resources)

Stock trading heads higher

New York Stock Exchange volume
(Average number of shares traded daily in millions)



AGRICULTURE

Sugar politics gets stickier. Spreading production of sugar beets will bring even hotter battles in 1965, future years.

Time was when U. S. relied on offshore cane growers—in U. S. islands such as Hawaii, plus foreign lands—for the bulk of sugar needs. Sugar wasn't a real domestic farm issue.

But it is now. And will get more so, farm politicians forecast.

Sugar beet growth is mainly responsible. Beet production hits 24.8 million tons this year, more than double 10 years ago. They'll make close to 30 per cent of sugar consumed here this year.

Commercial beet production spreads into new states. Federally approved beet processing plants will open to serve new growing areas in Auburn, N. Y., Drayton, N. D., next year; Aroostook County, Me., Phoenix, Ariz., in 1966. New Texas output began this year. Farmers grow sugar beets commercially in 21 states, experiment in several others.

Cane output in Gulf states expands, too.

New political tests will come on sugar legislation up for congressional action next year.

CONSTRUCTION

Look for firms to step up purchases of new machinery to replace

aging equipment. That's in addition to outlays for expansion. Needed replacement spending will absorb capital funds that might otherwise be used for other outlays.

So forecasts George Terborgh, research director of the Machinery and Allied Products Institute.

A new study by the organization shows the amount of equipment more than 10 years old owned by U. S. business has doubled in the past decade to over \$140 billion at 1964 prices. Average age of all equipment is 9.6 years, unchanged since 1962 but up from 8.5 years in the early Fifties.

New, fast expanding industries pull the average down, of course. Older industries with little growth have old equipment, as a rule.

Older stocks of equipment also forecast higher outlays for repairs. Internal Revenue Service figures for the 1962 fiscal year—latest available—show industry reported \$7.2 billion in repairs that year, up from \$5.1 billion in fiscal 1952.

CREDIT & FINANCE

New York Stock Exchange bustles with studies that will affect your securities dealings.

Reports will flow heavily in mid-1965.

Computerized cost-cutting methods get attention. The Exchange is eyeing possible low-cost joint automated bookkeeping arrangements for smaller member firms. A study

sets up a system to eliminate up to 75 per cent of physical transfer of stock certificates among brokers. If scheme works, computers would handle these clearing transactions much as checks clear in the banking system. Unveiling: next fall.

Higher speed tickers are slated to speed quotations starting this month. By the end of next year, the Big Board plans to hook the tickers into its computer system.

A major study already under way expects to draw a 10-year projection of securities industry problems and prospects—and what to do about them. The Exchange's sixth census of share ownership, due out next June, will give up-to-date figures on who invests.

Securities and Exchange Commission pushes Exchange into other studies. SEC's report on securities markets stirred possible changes in odd-lot dealings, other activities.

FOREIGN TRADE

New aid for your competitors from underdeveloped countries seems likely to come out of the United Nations General Assembly session opening this month.

The aid will be psychological for now. But it's the kind of thing that can build into dollars-and-cents advantages in years ahead, say international trade experts.

U. N. members probably will endorse a report of this summer's trade and development conference

after considerable debate. The report calls for industrial countries—such as U. S.—to give preferential duties, pegged commodity prices and minimum purchase agreements to goods from poorer lands.

U. S. opposes many of report's key planks. A 55-nation U. N. trade board will be set up in early 1965 to give push to the report.

General Assembly endorsement won't make these schemes binding but will amount to new pressure on U. S., Western Europe.

LABOR

Unions shift new political attention to state, local politics with end of presidential campaign. They will press strategy for electing friendly governors, legislatures four or more years in the future.

Top targets: The South and states with right-to-work laws.

This comes at time when businessmen, citizens groups tend to ease off on political activity until next presidential race. It enables labor to build statewide organizations for use in coming elections.

Called Programs for Progress, the statewide campaigns usually assess AFL-CIO members \$1 or \$1.50. "The main goal is to set up an organization, not the money itself," says a labor spokesman. Some 13 states have set up Programs for Progress. Virginia is the most recent. Recent successes include victory for labor-backed candidates in several key races for the Arkansas legislature.

North Carolina's program charts long-range goals: "A friendly majority in the legislature in 1966 and a friendly governor in 1968" in order to pass much of labor's legislative program by 1969.

MARKETING

Next year's headlines take shape as contending groups prepare for politically potent food marketing debate.

Congressionally approved National Commission of Food Marketing will make the study. It's supposed to assess likely changes in future of marketing system, if

changes fit national interest and, if not, what sort of system will.

Ex-judge on California Supreme Court, Phil S. Gibson, heads the probe. He gets high marks for nonpartisanship from many industry men.

But at least some food industry opinion fears stores, other distributors will be accused of boosting prices, curbing farmers' income.

National Association of Food Chains launches some studies of its own. It hires Stanford University economist Roger W. Gray to direct a research series on food distribution. "From seed to shelf," says an association spokesman. Studies expect to parallel those of government commission in many fields.

NATURAL RESOURCES

Diplomatic breakthrough may clear way for future use of peaceful atomic blasts to create new natural resources such as harbors, build other huge projects.

Nuclear shots outside of mines—even for peaceful purposes—are barred by test ban treaty with Russia. But the Soviets now signal quietly they may go along in permitting some shots for nonmilitary uses.

Negotiations will probably take place through International Atomic Energy Agency in Vienna.

Most spectacular project an agreement would permit: atomic blasting of a second Atlantic-Pacific canal.

Nuclear engineers say a string of A-bombs properly spaced could blast a sea-level canal cheaper and faster. One estimate of costs is \$800 million for atomic construction, \$5.2 billion by conventional methods. Congress already okays studies of a new route.

Southern Pacific Railroad, California highway department propose Project Carry-all for blasting a new mountain pass.

Abroad, Australians discuss blasting out new harbors. Egyptians talk up a vast power scheme relying on water carried by atom-dug canals. Thais think up plan for canal across Kra peninsula so ships can by-pass Singapore.

TAXATION

You'll want to watch some important decisions due in Washington in coming months affecting state powers to tax various phases of interstate commerce.

Top attention will go to recommendations by a House Judiciary subcommittee for any new federal laws offering guidelines designed to end overlapping taxation, other confusion over treatment of interstate commerce. Timing isn't certain, but the lawmakers may give views next spring. Any legislation would take months or years longer.

Subcommittee readies studies of state sales and use, gross receipts, capital stock taxes for early 1965 publication. It has already issued a landmark report on state levies on income from interstate trade.

Supreme Court may rule on constitutionality of present law which blocks taxation of some interstate sales by states where sale occurred. Louisiana, Missouri courts already uphold the law.

TRANSPORTATION

Governments—ours and foreign—are gradually asserting more say-so over international ocean shipping. Shipowners, many congressmen fight the trend.

U. S. leads the way. Federal Maritime Commission insists on standard contracts covering certain shipments, demands documents and other information from both American and foreign companies. Contracts are designed to standardize protection of shippers. Many foreigners balk, complaining about restraint on freedom of seas. But British talk of adopting similar arrangements.

Big fear: That underdeveloped nations which lack merchant fleets will attempt to prescribe terms for ships calling at their ports.

Congress divides on need for deeper government involvement in shipping rules. House Merchant Marine Committee quietly ends its investigation of Federal Maritime Commission. Joint Economic Committee considers extending its probe of shipping rates.

WEATHER

continued from page 37

state of the atmosphere over sufficiently broad geographical areas and with sufficient precision, we could remove obstacles we know prevent us from improving our forecasts.

What do you mean by "the initial state of the atmosphere"?

At any instant of time if you took a snapshot of the atmosphere we'd call this a description of the initial state. Now will this solve all the problems of meteorology? The answer is no. It will improve things greatly. But there will still remain large areas of ignorance with respect to the physical properties in the atmosphere. For example, we must also know the manner in which the atmosphere interacts with the oceans and with the surface of the earth. This is going to be an even more difficult problem in many ways than getting a description of the initial state of the atmosphere.

Are you giving greater emphasis to closing some of these gaps than others?

We are beginning to devote more effort to this problem of the interaction between the atmosphere and the underlying surfaces such as oceans and land. We are devoting considerable effort to the development of improved mathematical models of the atmosphere, which we use to describe the physical processes in the atmosphere and which are used as a basis of making weather forecasts. We are devoting considerable effort to precipitation and condensation processes. Considerable effort, of course, is going into development of satellite technology, which will enable us to acquire the observations that we need now, as well as how to use such information in everyday forecasting.

What do you mean by everyday forecasting?

This is something people generally confuse. They raise the question: Well, now that you have satellites and you can observe things, why are your predictions not greatly improved? Why do I get a forecast it's going to rain tonight and go out and find it's not raining?

There is a big step between having a description of the atmosphere or description of some phenomenon

in the atmosphere and predicting what is going to happen to that in the future. A satellite tells you what exists now. When we have a cloud photograph from a Tiros or a Nimbus, it tells us the clouds cover this area now. It does not tell us where the clouds are to be 12 hours from now.

In other words, whether a hurricane is going to hit the East Coast or go out to sea?

Yes. So any observation, including the satellite's, has its principal value in telling what exists now. If we know what exists now we are then in the position to say what is going to happen in the future. So there is considerable research required to find ways of using observational data, not just satellite

You'll pay more for federal health scheme than you've been told. Former government official discloses real cost prospects in the article on page 31.

data, although this is one of our principal areas of activity.

What will future weather satellites do?

The Tiros set of satellites essentially obtains cloud information and some infrared information about the temperature structure of the atmosphere. The Nimbus series of research and development satellites has obtained more detailed information about the temperature structure.

In the future we will be developing satellites that are able to give us improved information of this type.

One of the important areas for future satellite development, however, involves the use of satellites as essentially data collection and interrogation devices. They would collect data from buoys we might set in the ocean and weather balloons and weather stations in remote areas and rebroadcast the

data to us. This will be one of the areas which will be explored as a possibility.

Are these on the drawing boards now?

Planning studies are being carried out by the National Aeronautics and Space Administration. There are some tests planned for data collection satellites.

How well have scientists learned to use information from today's satellites?

You see, observational tools are of value to you in many ways. You take our hurricane warning services.

There has been a tremendous improvement in the hurricane information provided in this country. By and large these improvements have come about by our ability to develop equipment which will provide for rapid and accurate detection of where a hurricane is now. We can detect a hurricane with tremendous accuracy now. Satellites help us in this. Indeed, during recent hurricanes the satellites provided us with early detection of the storms when they were out in the Atlantic. So you can provide for considerably improved weather services by your ability to provide for early detection and accurate tracking.

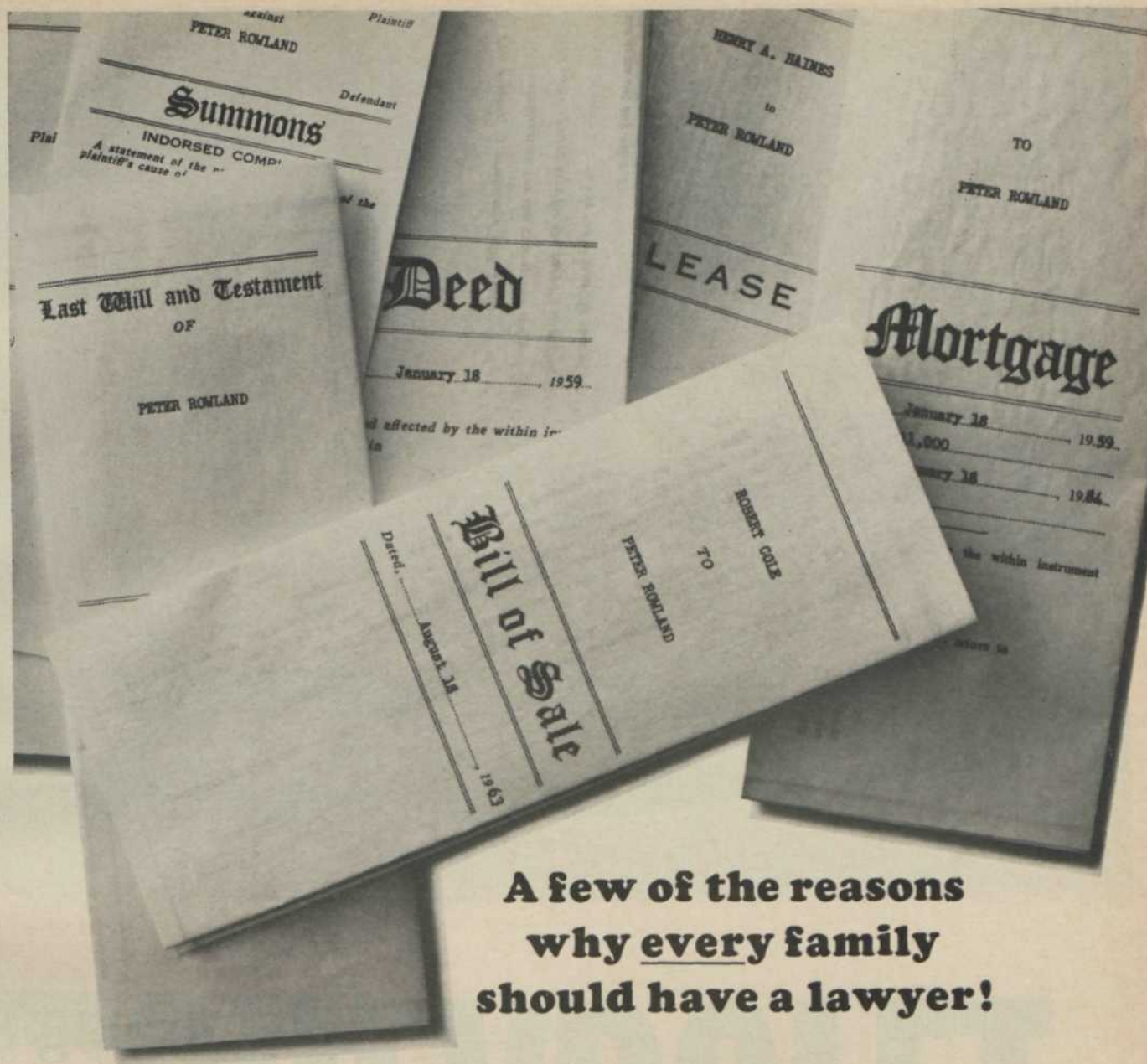
We are beginning to do this now with respect to tornadoes as we learn more about them. With the use of radar in their tracking we can begin to follow them about the countryside and to provide improved warning services. This is still an extremely difficult problem, however.

What do you need to know about such storms?

In general we would like to know first what causes them to form. If we can understand what causes them to form, hopefully we could detect these conditions that give rise to the phenomena and predict their occurrence before they form. We are also interested in what causes them to intensify. Hurricanes are extremely erratic phenomena. They intensify and then become weaker and then intensify again. We don't understand why this happens.

The normal winter storms we have here in the United States go through intensification. We would like to know what causes them to intensify as they do.

We would like to understand why they move in the directions they move. We would like to un-



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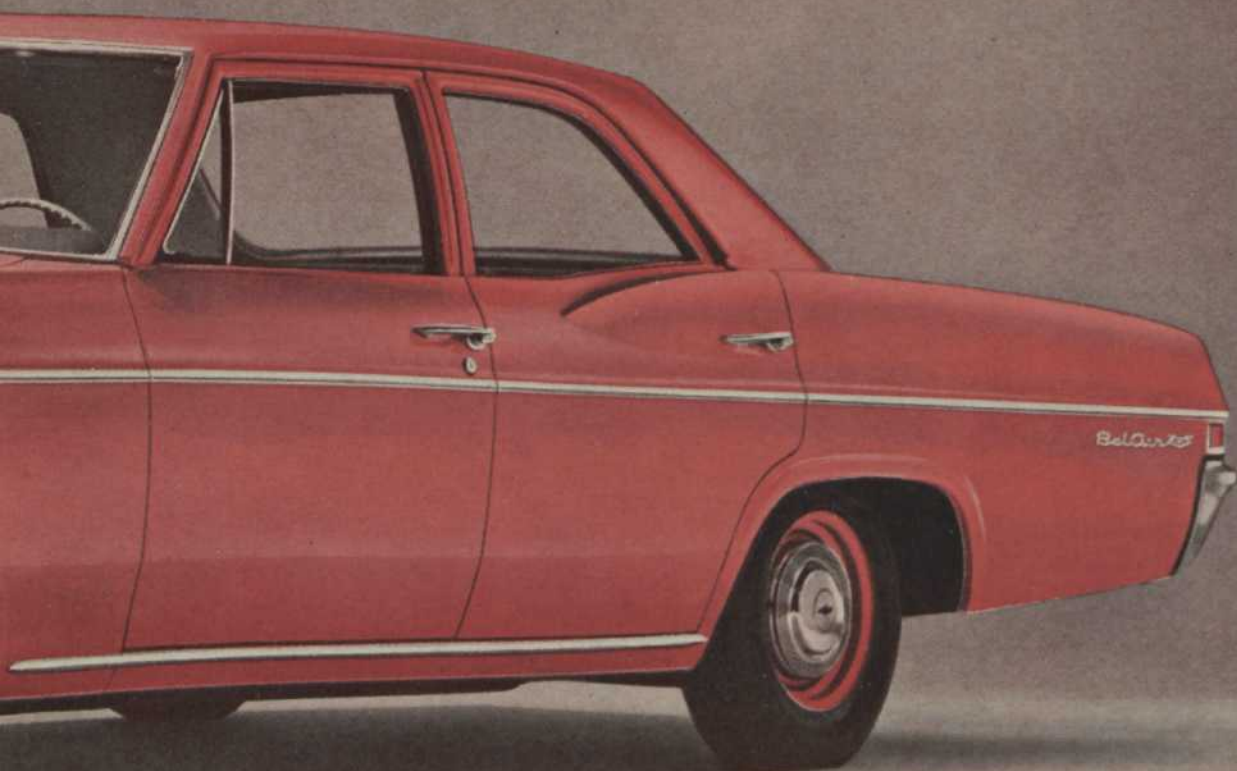
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**DISCOVER THE NEW
IN NEW YORK STATE**

WEATHER

continued

derstand what causes them to dissipate. This general sequence of events is true whether it is hurricanes, tornadoes, storms or almost any kind of weather phenomenon you might mention.

Do you have any clues as to why these things intensify or weaken or change?

I'm afraid it gets pretty technical but it involves the manner in which the atmospheric system converts potential energy into kinetic energy. We now have begun to appreciate the manner in which this is done through a study of these processes and we are just beginning to simulate them in some of our equations.

We must understand the manner in which, for example, the moisture, the energy and the momentum are exchanged between the oceans or the surfaces of the earth and the atmosphere. Unless we understand how much moisture is being put into the atmosphere from the surface of the earth we are never going to be in a position to predict what is going to happen in the atmosphere, because this is one of the principal ways in which energy is released in the atmosphere. When the moisture condenses it releases energy. Unless we understand all the energy inputs into the atmosphere we are not going to develop realistic theories and have a basis of improving our forecasts.

This suggests we know very little about potential control of the weather?

This is a question which comes up repeatedly and is an important problem. Our accomplishments in the area of weather modification have been modest, very modest. For example, we can modify the weather on a very small scale. If you put up a smudge pot in the orange grove, you are modifying the weather.

We have also learned to bring about certain weather modification on larger scales. For example, it is now fairly well established that we can, under certain temperature conditions, dissipate fog and low clouds. This has been demonstrated many times in this country, and the Soviets practice this on a routine basis. In some countries of the world they have had some success in suppressing hail.

Just how do they do that?

By injecting seeding agents like

silver iodide into clouds at the appropriate elevation and time.

There are people who believe it is possible to provide for augmentation of water through cloud seeding. However, it is not yet clear that we know enough to be able to state that this is indeed the case.

In other words, rainmaking doesn't always work?

Well, the evidence which is at hand now is too uncertain really to justify a statement one way or the other.

At any rate, we have to distinguish between these and other aspects of weather modification: steering of hurricanes, dissipation of severe storms, things of a much larger magnitude. But with the substantial increase in our knowledge of the atmosphere and with new techniques becoming available to us, it becomes reasonable to believe that there is promise. What we should be doing is engaging in a systematic program to explore the feasibility of these things.

Nobody knows whether weather modification will be possible. If we were forced to estimate right now the chances of success, one would have to rate them very low. But because the potential payoff is very great, I think that it is worth while exploring. This kind of thing always lends itself to sensationalism.

I personally feel the exploration of the possibilities of modification and control of one's environment represents one of the really great adventures that face us in science.

Have your scientists found that we are going through any major changes in climate at the moment?

Well, the climate is always changing. It is never stationary. Some of the changes are very short-lived, others are much longer-lived. There is evidence that over a certain number of years a certain area has higher temperatures than it did in other years. There is no question but that climate does change. But we really don't know whether long-term changes are afoot. I don't think the information we have available to us is adequate for us to make judgments.

Is there still work that needs to be done in making forecasts more intelligible to the public?

Oh, yes, it is clear to me that we can make our services more useful than they are now by paying more attention to the manner in which the information is presented. We have a sizable measure of uncer-



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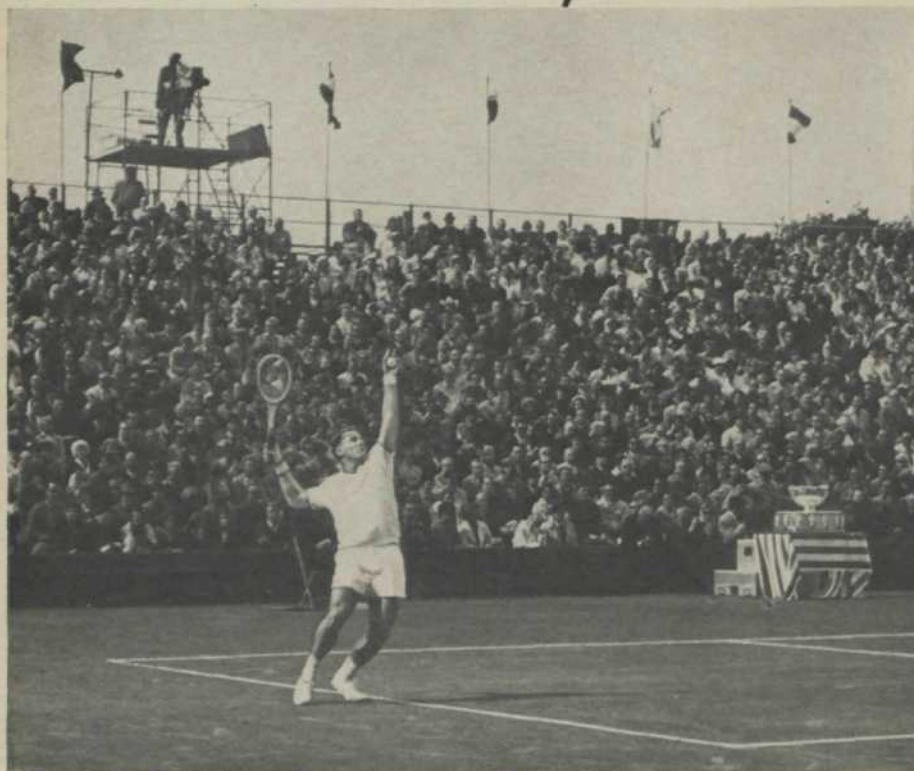
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SEPT. 28, 1964...

WEATHER

continued



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tainty in our forecasts and the public realizes this. Everybody who uses weather data realizes this. Now I feel that we should attempt to communicate to the public the uncertainty which we as meteorologists feel when we make a weather forecast. There are certain times when we are very, very confident that our forecast is going to be a good one. There are other times when we are very uncertain. It seems to me we should communicate our degree of confidence to the public. If I were going to make a forecast during the summer that it is going to be clear tomorrow and I say the chances are nine in 10, you would not hesitate one bit about laying plans for a picnic. But if I were to tell you the chances are only five in 10, then there would be some hesitancy on your part about planning this particular picnic. As a result you would place a greater degree of reliance on the service that you get.

We are laying plans here in the bureau to begin in certain selected places to present such information to the public. We have experimented with this in the Weather Bureau and in some areas it has been quite successful.

Are you planning new specialized weather reports for different groups, such as farmers, similar to specialized service for aviation?

Yes. We have a 10-phase national plan for agricultural weather services. We have actually introduced it into certain sections of the country. The idea behind this is to provide the farmer with the kinds of information he can use: when he can and cannot spray, the amount of moisture in the soil. We actually begin to take observations in the areas he is interested in. We set up communications to go to the newspapers and radio stations in the farm areas. We have set this up in a number of areas and it is successful.

You are going to extend this?

Our plan is to extend it over most of the country.

What improvements are you making in similar services for other industries?

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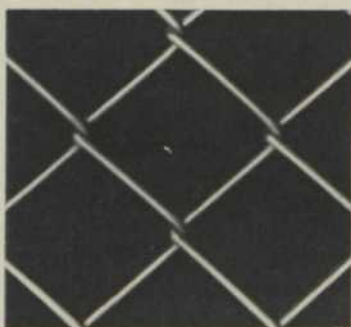
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WEATHER

continued

take a hard look at the kinds of marine weather services we are now providing to see what we can do. After all, this is a very weather-sensitive activity—all you need to do is to talk to somebody who owns a boat.

We have plans now for establishing new radio and telephone weather forecasting services for marine activities on some of our coasts.

One of our problems is to design a communication system that will meet the requirements of aviation, agricultural communities, private interests and so forth, so everybody can get the data where and when he wants it. This is no easy matter and requires a period for a rather detailed design of communication networks to make sure everybody is served.

So we have the technology, we have the concepts, but there is a substantial amount of work to be done in actually translating these concepts into practice.

What are the prospects for establishment of a worldwide weather system?

The World Meteorological Organization is proceeding now with plans for this world weather system. I was at a meeting of the Executive Committee of the World Meteorological Organization in Geneva in June at which the nations represented decided on the concept of this general plan and a general schedule for moving ahead with the planning aspect of this world weather system.

For example, one of the concepts of the world weather system envisions the establishment of three world weather centers: one in Moscow, one in Washington and one in the southern hemisphere.

The details of what the world weather center would do are now in the process of being worked out. The plan similarly calls for regional forecasting centers serving groups of countries.

In Western Europe, for example?

In Western Europe or in many places in the world.

Similarly, the worldwide communications aspects of the world weather system are now being considered. For example, right now the northern hemisphere has a relatively complete communications network but the same is not true of the southern hemisphere. It is very difficult to get complete weather



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WEATHER

continued

description in the southern hemisphere because the communications network does not exist.

How long will it take to complete this system?

This is not something that is going to be done overnight. The present schedule calls for the W.M.O. to have a rough outline of some of the major aspects of the world weather system in about a year and hopefully that organization can have the details of such a world weather system worked out two years after that. The plan is to be able to present to the next Congress of the World Meteorological Organization in about three years detailed recommendations for this world weather system. That would be followed by experimentation.

So we are talking about the 1970s?

Yes.

Have the Russians said they would go along?

The Russians are very much interested in the development of the world weather system. I met with the head of the Soviet Weather Service in the Soviet Union prior to going to Geneva and I also saw him in Geneva.

What would we get out of it in the United States?

Improved accuracy and extension of the time range of forecasts for the United States at home and for U. S. interests on a global basis.

Our principal motivation is selfish. We feel we need this system.

The principal obstacle preventing us from really improving the accuracy of our weather forecasts over the entire country, and also the principal obstacle to more successful long-range forecasts, is the fact that we do not have adequate information on a global basis. The weather that exists in Japan today affects the United States three or four days from now and the weather that is leaving the East Coast affects Europe in three or four days. The atmosphere is an international entity. **END**

REPRINTS of "New Weather Discoveries Will Serve You" may be obtained for 30 cents a copy, \$14 per 100, or \$120 per thousand postpaid from Nation's Business, 1615 H Street, N. W., Washington, D. C. 20006. Please enclose remittance.



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Federal control threatens pension plan growth



Prof. Carl H. Fischer of the University of Michigan

Expert tells what attempts to extend regulation could mean to businessmen and workers

GROWING PRESSURE for more federal regulation of private pension plans is arousing concern on the part of businessmen and pension experts.

The Administration is taking a careful look at the future role of the government in this field. A Cabinet-level committee has been studying the impact which rapidly growing retirement funds may have on the national economy and examining the question of how private pension systems may contribute more effectively to efficient manpower utilization and mobility. Vesting and funding provisions of private plans have been considered by the committee, as have possible standards dictating how pension funds should be invested. Proposals have been made elsewhere to establish a federal reinsurance program to guarantee pension benefits and to set up a central clearinghouse for benefits.

Half the country's workers are covered by private pension plans, and the market value of current pension fund assets totals \$78 billion.

By the end of this decade it is expected to reach \$120 billion.

Is further regulation of private pension plans necessary, and what effect would it have on U. S. business? How safe are pension plans now?

To answer these and other questions, the editors of NATION'S BUSINESS interviewed one of the nation's leading authorities on pensions, Prof. Carl H. Fischer of the University of Michigan's Graduate School of Business Administration.

Dr. Fischer, who is professor of actuarial mathematics and insurance, has served on several advisory groups appointed by Congress and has been consultant to the Republic of the Philippines and to a number of retirement funds. His course on private

BENYAS-BLACK STAR

pension plans is one of the first established in a major U. S. university.

Here are Dr. Fischer's views on the crucial relationship between government and private pension funds:

Dr. Fischer, how much progress has been made by business and labor in assuring the safety of private pension plans?

Business and labor have both been interested in trying to achieve the full funding of pension plans in a reasonable length of time, making allowances for variations by industry, individual companies and by the profit picture. Remarkable progress has already been made by business and labor, so that we have a very high degree of safety in private pension plans in this country. No doubt further progress will be made. Both business and labor are on the same side of this issue in favoring sound, well-funded pension plans.

If approved, what effect would current suggestions for federal regulation of pension plans have on most business firms?

Additional federal regulation, particularly when not really needed, could hardly help but have an adverse effect on business firms. Such additional regulation would obviously lead to more paperwork and red tape, more legal problems as to whether regulations were being complied with in all details. No doubt changes in regulations would occur frequently, as past experience with other federal regulations shows, causing additional problems. Too stringent regulations could cause an increase in costs of fringe benefits or possibly the abandonment or reduction of pension plans.

Is there a significant amount of misuse of funds, such as that which resulted in the recent conviction of Teamster President James R. Hoffa?

I think there has been very little misuse of funds. People tend to confuse some of the disclosures of the McClellan committee, for instance, regarding the mismanagement of Taft-Hartley welfare plans with the management of pension plans. The board of trustees under the Taft-Hartley type of employer pension plans has the responsibility of safeguarding the pension funds and I believe has discharged this quite well. It is fairly obvious that an employer is not going to misuse funds which he himself has contributed since he is to provide the pensions and would have to make up any shortages.

Is there any way that pensions can be absolutely guaranteed?

When you say absolutely, the answer is unquestionably no. And it will still be no if you mean just guaranteeing pensions as they continuously accrue, because they clearly depend upon the continued existence and financial health of the chief source of funds, which is the employer. If we are referring to

pensions already being paid, the existence of funds in the hands of the trustees or insurance company certainly furnishes a type of guarantee that the pensions will be paid.

What is the extent of private pension plan coverage in the U. S. today?

There are about 92,000 pension plans and profit-sharing plans approved by the Internal Revenue Service. There are, in addition to that, a much smaller number of unqualified and informal pension plans. IRS doesn't distinguish in the statistics between the pension and profit-sharing types, but sample studies have shown that roughly 70 per cent are pension, so there are about 65,000 pension plans.

At the end of 1963 it is estimated that the total assets amounted to about \$78 billion at market value. Something over two thirds of that is held in trustee plans and less than one third in insured plans. The assets have been growing by around \$6 billion a year. In 1953 the assets were approximately \$20 billion, and it is estimated that by 1970 the assets will come to \$120 billion.

It is not easy to find out how many people are covered, but some estimates that seem reasonable to me state that perhaps half the workers in the country are covered by pension plans. The percentage of industrial workers covered is much higher than that, I am sure.

To what extent are private pension plans regulated by federal and state governments?

They are covered by law, at least indirectly, in several ways. The insurance companies handling pension plans are carefully regulated by the individual states. Trustees handling the noninsured plans are also covered by state laws covering trustees in general. In both cases there are restrictions on the investments that may be made as well as on the general handling of this fiduciary relationship.

The federal government exerts quite a lot of regulation on pension plans through the Internal Revenue Service, which has set up requirements for qualification of pension plans. A plan which is qualified has these advantages: First, the money contributed by the employer within the limits set by the IRS is tax-deductible as a reasonable and necessary business expense. Second, money contributed on behalf of an employee is not considered to be income to the employee in that year for tax purposes. He will be taxed later when he starts receiving his pension. Third, the income earned by a qualified trust or insured fund is tax-exempt.

In order to become qualified, a plan must meet certain requirements. It must be permanent; it must exist for the exclusive benefit of the employees; the employer's contributions may not revert to him, at least not until all obligations to the plan have been met at the time of termination, and the plan must be nondiscriminatory. That is, it must not favor share-



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PENSION GROWTH

continued

holders, officers, supervisory or highly compensated employees. The IRS does not require actuarial soundness—a concept about which experts disagree—or any specific rate of funding. It does insist that the unfunded liability in later years shall not be permitted to exceed the initial unfunded liability. The trust may not engage in prohibited transactions, by which is meant financial dealings with the employer or officers of the employing corporation, such as lending money without adequate security and at rates below a reasonable rate of interest and the like.

The Federal Disclosure Act of 1958 requires disclosure to the Secretary of Labor of the important financial and operating statistics of pension plans. These reports are open to public inspection.

Does any additional regulation seem to be necessary?

I would say no. There seems to be little need for additional regulation. The growth of pension plans has been very substantial. The benefits have been steadily improved and the plan funding has progressed extremely well, all on a voluntary basis. So there seems no need to impose any additional bureaucracy in the field.

Do you see any need for changes in the present regulations?

The Internal Revenue Service has at present a ceiling on the amount of tax-deductible contributions which an employer may make to a pension plan.

Thus, the IRS restricts the possibility of a company funding very heavily in years of good business and lightly in less favorable years. Also, if a plan is fully funded or even overfunded, no tax-deductible contribution may be made. I believe it would add to the soundness of a plan and to the security of employees if these regulations were relaxed somewhat. An employer might, for instance, be permitted higher contributions and, also, the Internal Revenue Service might permit a company to overfund by perhaps five or 10 per cent as a safety margin. This would be quite analogous to the surplus which an insurance company is required to carry for the protection of its policyholders.

Should there be a public policy requiring that pension plans meet

specified federal standards in assuring that benefits will be paid?

I don't think so. Imposing federal standards might very well slow up the adoption of new pension plans and possibly also the growth of already established plans. I think you would find both employers and unions opposed to this sort of a standard. Unions seem to believe that it is a good thing to establish a pension plan of some sort and work for its improvement later.

It is almost the universal practice at the time of establishment of a pension plan to grant pension credits for the period of service each employee has rendered up to the date of the establishment of a plan. Regardless of whether the plan is contributory or noncontributory for future service, the cost of this past service is almost invariably assumed in full by the employer. Thus the plan starts off with a heavy liability unmatched by any assets.

Both employers and unions seem to be willing to establish a plan if this heavy initial liability incurred by the granting of past service credits can be funded over a long period of time in the future, such as 30 years. The employer might not be willing or able to start a plan if he were required to fund more rapidly.

This is analogous to the purchase of a home by an individual. Most people could not afford to buy a house if they had to pay it off in, say, five or 10 years.

Sen. Vance Hartke of Indiana has proposed that a federal reinsurance program be established to guarantee payment of pension benefits to workers. Is this a feasible idea?

I can't see much value in this sort of plan. In the first place, it could hardly be called insurance. It would merely be a subsidy paid by the soundly funded plans for the benefit of the marginally funded or mismanaged plans. The bill specifies that the same premium rate should be paid by all. This is obviously grossly inequitable. Further, such a plan might actually encourage reckless investment and inadequate contributions, since the unfortunate consequences would be paid for by others. Finally, there seems to be little need for the benefits contemplated, and any existing need at all will diminish with the passage of time as plans become more fully funded.

The employee and retired employee's share in most private pension plans is very safe, as experience has shown. And, as the plans be-



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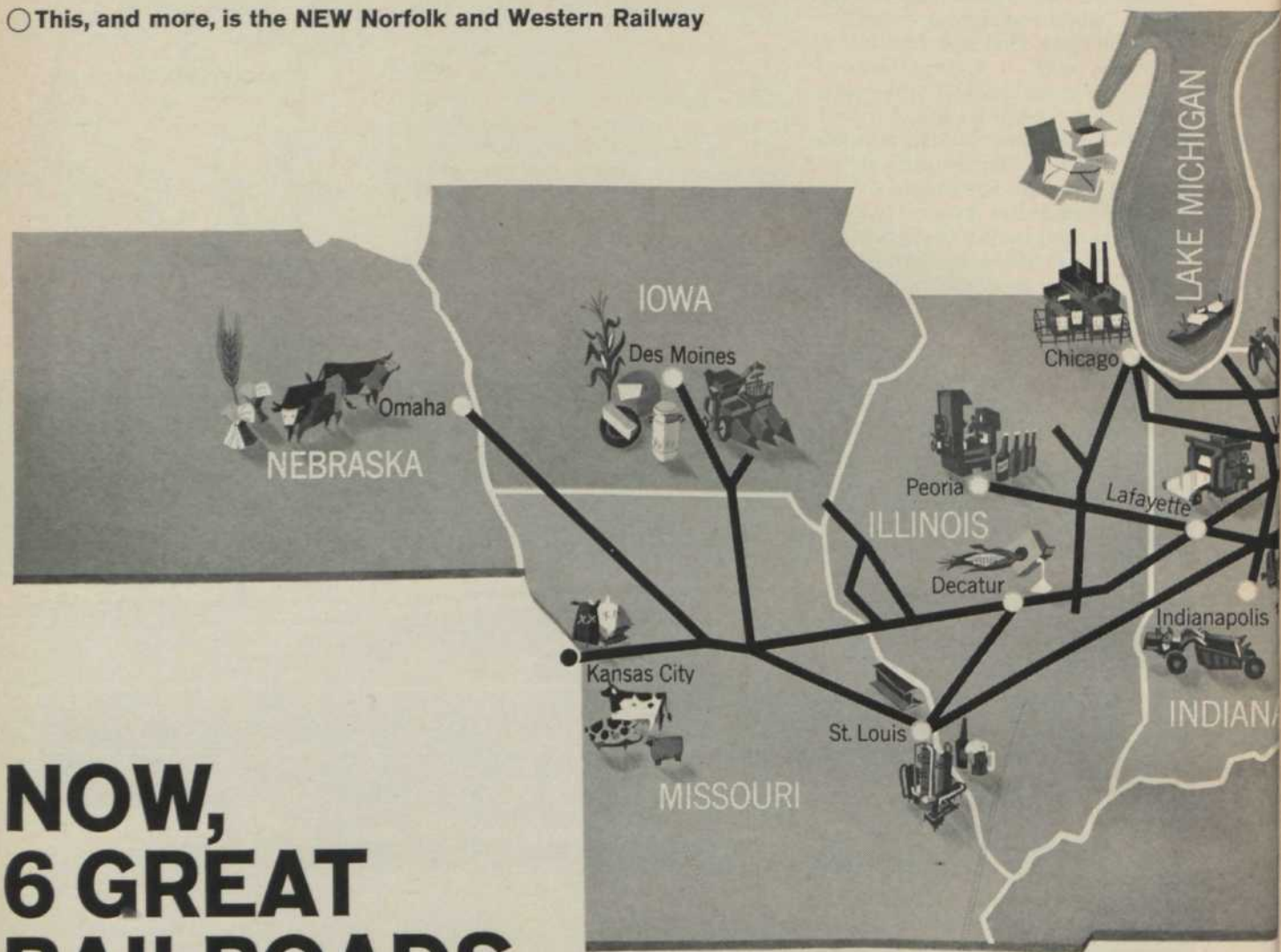
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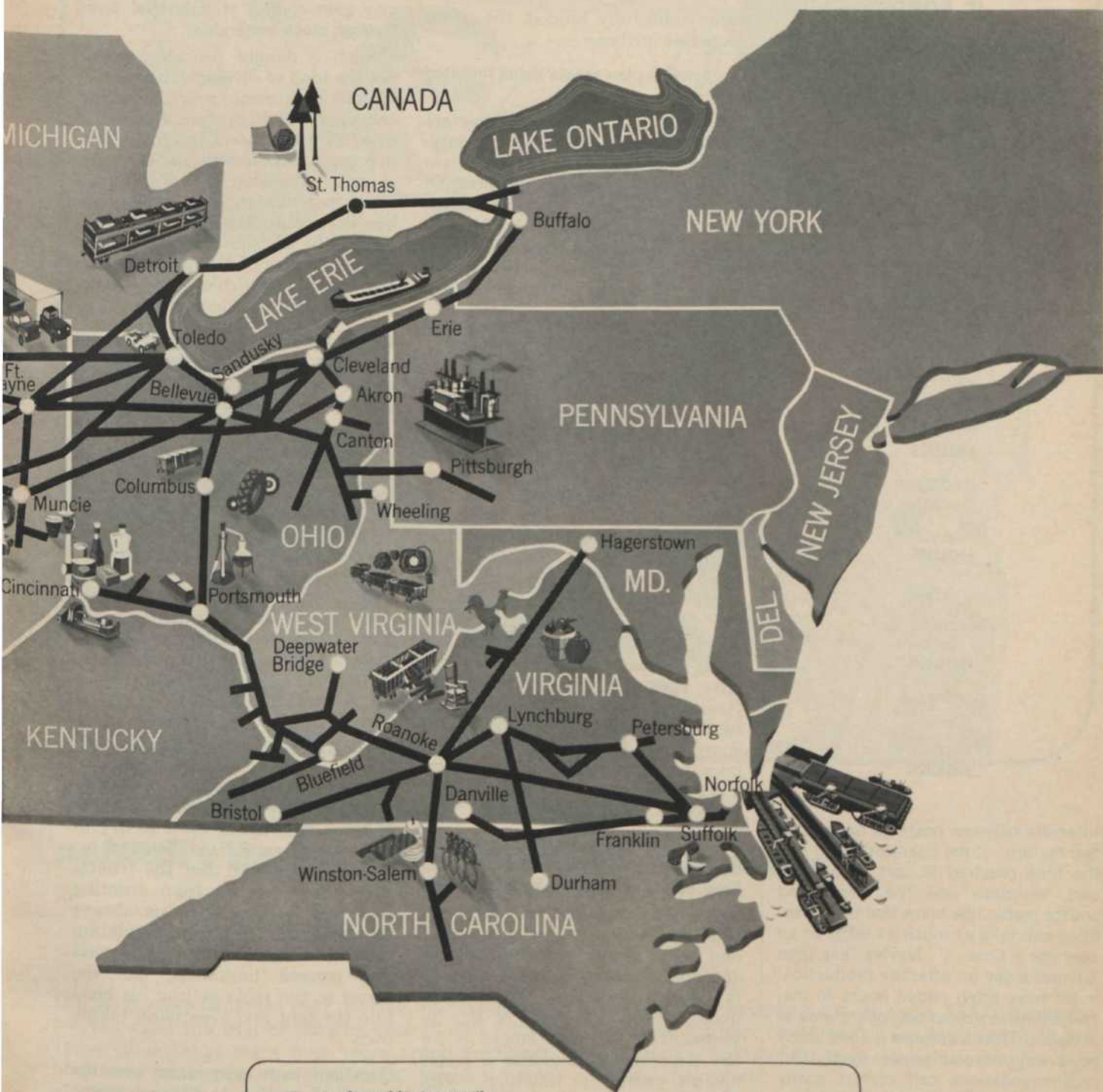
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HOURS

6

HOURS

5

HOURS

4

HOURS

3

HOURS

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PENSION GROWTH

continued

come more fully funded, the safety increases further.

Are pension plan assets being invested safely?

I think that in the main they are invested safely. The plans are buying sound mortgages, high-class bonds and blue-chip stocks. Of course there may be some exceptions, but by and large the trustees and the insurance companies voluntarily, and also as a legal requirement, make good investments.

Is the share of pension fund assets invested in common stocks rising?

Yes, the share is continuing to rise. According to the Securities and Exchange Commission, the percentage of assets of noninsured funds invested in common stocks has risen over the past 10 years from 16 per cent to 39 per cent. The investment of insurance companies in common stocks over the same decade rose from approximately three per cent to five per cent. Most states restrict severely the proportion of common stock investments which a life insurance company can hold. However, recently a few states have provided that life insurance companies may set up segregated funds for insured pension plans apart from the company's regular investment portfolio. These segregated funds are permitted a higher proportion of common stock.

Does this growing investment in common stocks threaten either pension fund safety or stock market stability?

As long as the pension funds continue to invest in blue-chip stocks and stay away from the volatile speculative issues, I don't think it is cause for concern. There is no question but that most of the investment in common stocks is for the purpose of providing a hedge against continued inflation. With unbalanced federal budgets and union wage contracts which go well beyond the increase in general productivity, it seems that inflation is very likely to continue.

Investments in fixed-dollar securities can also cause concern by financing pensions which, when finally received, may be far below the intended standard.

I am not an investment specialist, but I have the impression that stock market stability is strengthened by the investment of pension funds in stocks, because they usually buy to

hold and don't dump stocks on the market at each downturn.

Is there a danger that pension funds may gain control of industrial firms through stock ownership?

Such a danger probably exists, but the kind of diversification which sound investment practice would encourage would prevent that sort of thing. Furthermore, Internal Revenue generally frowns on the purchase by a pension fund of the stock of the parent company. It is possible that state laws might be extended to pension funds to limit the percentage of assets invested in any one security, like such restrictions on insurance companies.

Should the federal government set up standards to control investment of pension fund assets or direct their investment to achieve social purposes?

I am certainly opposed to directing investments to achieve social purposes. It seems to me that you have here a distinct contradiction between sound, profitable investment for the benefit of the employee covered by the pension plan and the so-called social purposes. If these social purpose investments were sound and provided a good yield, there would be no need to compel the pension plans to invest in them. For example, compulsory investment in low-cost housing has been proposed by certain union officials. If this were required, they would be sacrificing the best interests of their members, as far as pensions were concerned, in favor of those who might want to live in low-cost or subsidized housing.

I should prefer that the federal government refrain from entering this field because there is always the danger that if federal regulation starts it will continue far beyond any present limitation, like the camel in the fable getting his head into the tent and eventually taking over.

Questions have been raised over the extent of vesting in pension plans. What does this term mean? Is it something that should be required?

Vesting in a pension plan means that the employee has a contingent right to some part of the benefits which have been accrued as a result of his service, even though he terminates his employment. In practice this usually means that the employee at termination will have a right to a deferred pension on which payments will begin when he reaches retirement age. The requirements for obtaining such a deferred



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PENSION GROWTH

continued

benefit usually are the attainment of some minimum age, typically 40 or 45, and a minimum period of service, such as five or 10 years and sometimes more. The intention here is to exclude employees of very young age or short service, where the turnover rate is very high and the pension accruals very low. Since it is expensive to train new employees, the employer in most cases will not have gotten back his investment in training during the short service of such people. It seems unfair to require him in addition to provide any pension benefit for them. On the other hand, an employee of longer service will appear equitably entitled to the pension rights which he has accrued during such service.

I believe that vesting in pension plans is a good thing, but I do not believe that we need to require it by law. Tremendous progress has been made over the past decade in installing vesting provisions in both new and old plans, so that now from 80 to 90 per cent of pension plans have increasingly liberal forms of vesting. At first, the union-negotiated plans omitted this requirement, but in recent years it has become an almost universal feature.

Can so-called portability of pensions, enabling employees to carry pension rights with them from job to job, be improved by such proposals as the one which would set up a central clearinghouse to bank pension credits for a man who changes jobs?

I have two objections to this. I don't think such a central clearinghouse is necessary because, as is being done at the present time, an employee can be given a certificate from an uninsured plan or a deferred pension policy from an insured plan indicating that when he reaches the stated retirement age he will receive the pension payments to which he is entitled. If he is the type who changes jobs frequently, his ultimate retirement allowance might consist of monthly checks from half a dozen different insurance companies or trustees, but this does not seem a major drawback.

The second objection is that setting up such a clearinghouse might lead to inequities between employees who quit and employees who remain with the company. This inequity could arise through the fact that the investment yield, the mortality experience and the administrative ex-

penses of this clearinghouse as an insurer would be different than the corresponding items in the original pension plans. Furthermore, if an employee left a plan which at that time was only partly funded, but the fully funded value of his accrued pension had to be contributed to the clearinghouse, he would be favored at the expense of employees who remain with the employer.

Funding of pension plans seems to be another point at issue. Can you tell us what funding means?

Basically, funding in a pension plan means the orderly budgeting of future pension costs. It can be determined fairly readily how much money will be needed at the time of each employee's retirement to provide him with the pension to which he is entitled. There are a number of recognized actuarial methods approved by the Internal Revenue Service for funding pension benefits. These vary considerably in the intermediate stages, but are all designed to produce the required amount of money at retirement. A plan is said to be fully funded when under the particular funding method being used it has assets which, added to the present value of the computed future annual contributions, equal the value of its benefits.

Should full funding of plans be required?

No. A too stringent financing requirement might inhibit the adoption of pension plans by employers and it might even cause the abandonment of plans already in existence. Furthermore, because of the variation in liability at intermediate stages, as calculated under the different permissible methods, one could hardly require full funding without specifying the method and the actuarial assumptions to be used, such as the mortality table, interest rate, turnover rate and such. A pension plan which is fully funded under one funding method and set of assumptions might very well be underfunded or overfunded under different methods and assumptions. At present, the Internal Revenue Service has very wisely permitted a reasonable variation in methods and assumptions, and this seems to have worked very well. **END**

REPRINTS of "Federal Control Threatens Pension Plan Growth" may be obtained for 25 cents a copy, \$12 per 100, or \$90 per 1,000 postpaid from Nation's Business, 1615 H St. N.W., Washington, D.C. 20006. Please enclose remittance.



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Based largely on income and spending patterns developed by the U. S. Departments of Commerce, Labor and Agriculture, this study shows 1964 consumer spending according to family income and items purchased, and projects spending to 1975.

The 1964 American consumer market is made up of 59.5 million consumer units (both families and single individuals) spending \$400 billion.

The 1975 market is expected to include 70 million spending units buying \$640 billion in goods and services.

This year 47 per cent of the consumer units have income under \$6,000, and they make 24 per cent of the total dollar purchases. By 1975 this income group will shrink to some 28 per cent of the spending units. They will account for only about eight per cent of the purchases.

Consumer units having \$15,000 or more income now total eight per cent of the spending units, making 24.5 per cent of the dollar purchases. By 1975 this income group will grow to some 12 per cent of the spending units, and make about 35 per cent of the consumer purchases.

This NATION'S BUSINESS study analyzes separately six major sec-

tors of consumer spending, which show that by 1975:

- ▶ Food spending will be up 42 per cent.
- ▶ Tobacco and alcoholic beverages up 56 per cent.
- ▶ Clothing and footwear up 43 per cent.
- ▶ Shelter and housewares up 63 per cent.
- ▶ Transportation up 58 per cent.
- ▶ Medical care, recreation, reading and education up 78 per cent.

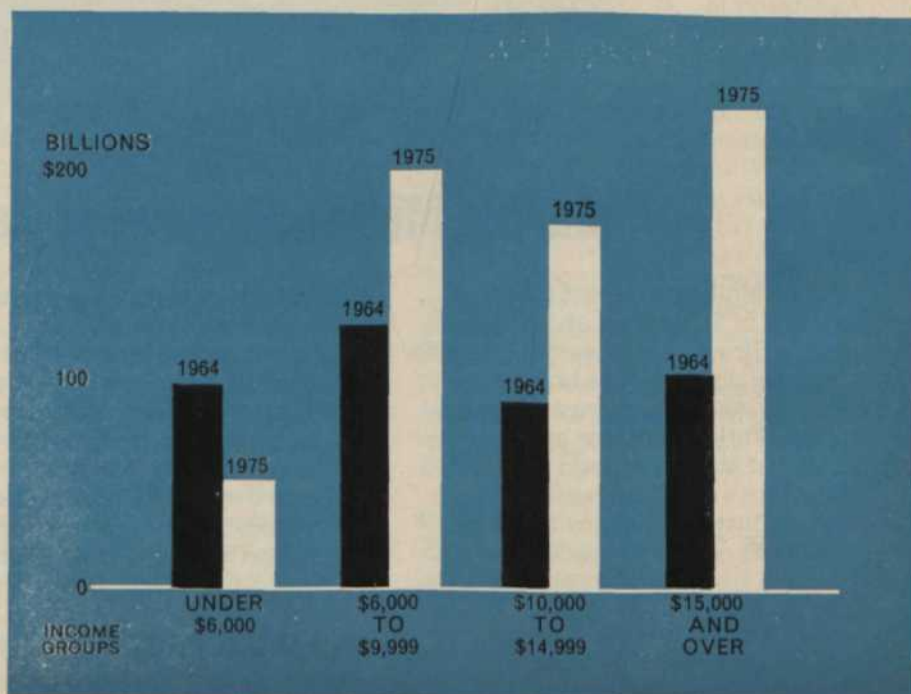
1. Food

Spending for food at home and away from home will total some \$81 billion this year. These expend-

itures are expected to reach \$115 billion in 1975. This increase is somewhat below the 60 per cent increase projected for total consumer expenditures, and is in line with the long-term trend of families to allocate a decreasing proportion of expenditures to food as income increases.

Food spending per family averages about \$1,361 this year, including \$1,040 for food consumed in the home, \$286 for meals eaten away from home and \$35 for between-meal snacks and supplements to packed lunches. By 1975 food expenditures are expected to reach \$1,643 per family, including \$1,231 spent on home-consumed food, \$371 for meals eaten away from home and \$41 for between-meal snacks

How much people will spend by 1975



markets in '75

and supplements to packed lunches.

Food consumed at home

Food eaten at home takes a smaller portion of the food dollar as income rises. Families with income under \$10,000 spend 80.5 per cent of their food dollar for home-consumed foods, while families with income of \$15,000 and over spend only 67 per cent.

Average allocation of the dollar for home-consumed food is 32 cents for meats, poultry and fish; 19 cents for fruits and vegetables; 15 cents for dairy products; 13 cents for cereals and bakery products, and 21 cents for other foods.

Cereals and bakery products

Families with incomes under \$6,-

000 use 11.5 per cent of their food dollar for cereals and bakery products, but with higher income the proportion drops steadily, reaching seven per cent for families with \$15,000 and over.

Spending for cereals and bakery products is expected to rise 34 per cent by 1975.

Meats, poultry and fish

With red meat consumption at an all-time high of 173 pounds per capita, Americans are eating 99 pounds of beef per person, 64 pounds of pork, five pounds of veal and 4.5 pounds of lamb and mutton. During the last 10 years beef consumption per person has increased 24 per cent, pork consumption is up seven per cent, while veal is down

52 per cent and lamb and mutton down two per cent.

Dairy products

The average American is consuming 38 gallons of fluid milk and cream this year, 2.3 gallons of ice cream, 1.5 gallons of condensed and evaporated milk, nine pounds of cheese and seven pounds of butter. Dairy product sales are expected to ring up a 38 per cent rise by 1975.

Fruits and vegetables

Fresh fruit consumption per person this year totals 90 pounds, including 22 pounds of apples, 20 pounds of bananas, 18 pounds of oranges, nine pounds of grapefruit and eight pounds of peaches.

Processed fruits and vegetables consumed per person include 22 pounds of canned fruit, 13 pounds of canned juice, eight pounds of frozen fruits and juices and three pounds of dried fruit.

Each person on the average eats 98 pounds of potatoes, plus 102 pounds of fresh vegetables.

We are eating less fresh fruits and vegetables, but more which has been canned, frozen, dried or otherwise processed.

Fresh vegetable consumption has shrunk four per cent, for example, but processed vegetable consumption has increased 24 per cent.

Fruits and vegetables purchased for home consumption are expected to rise 39 per cent by 1975.

Other food consumed at home

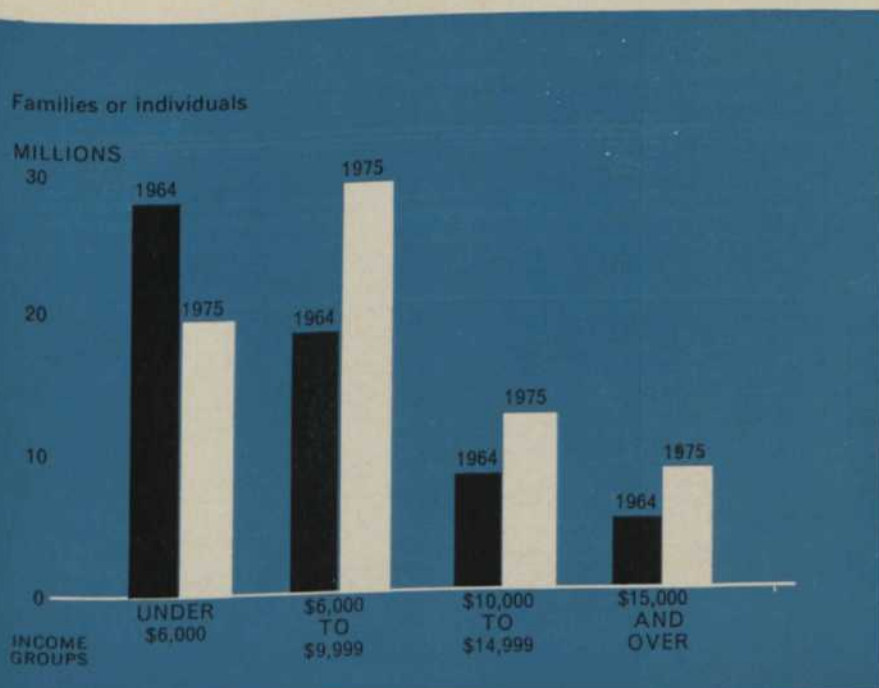
Other food consumed at home, including eggs, sugar, coffee, tea and soft drinks, totals \$14.2 billion this year.

Expenditures for these items are expected to rise 39 per cent by 1975.

Meals away from home

Spending for meals away from

One family in three will make over \$10,000



MARKETS IN '75

continued

home increases sharply as family income rises.

Families with incomes under \$6,000 eat \$2.07 in meals away from home for each \$10 of home-consumed food. When income reaches \$15,000 families spend \$4.55 for away-from-home meals for each \$10 of home-consumed food. This spending is expected to increase 53 per cent by 1975.

2. Tobacco and alcoholic beverages

Americans are spending \$20.5 billion on smoking and drinking this year. This is 5.1 per cent of total consumer spending. These outlays are expected to climb 56 per cent by 1975.

The slice of the dollar allocated to tobacco decreases as income rises. But people who are well off spend more money for smoking.

Families with incomes under \$6,000 spend an average of \$93 per year for tobacco, for example, but families with \$15,000 and over average \$271 in their spending.

Average consumption includes 4,350 cigarettes and 60 cigars a year.

Among men, 54 per cent are nonsmokers or occasional smokers, 14 per cent smoke less than a pack of cigarettes daily, 17 per cent smoke a pack a day, and 15 per cent smoke more than 20 cigarettes a day.

Among women, 73 per cent are nonsmokers or occasional smokers, 15 per cent smoke less than a pack a day, nine per cent smoke 20 cigarettes a day, and three per cent smoke more than a pack daily.

The proportion of spending for alcoholic beverages ranges from 2.8 per cent of total spending for families with income under \$6,000 to 3.2 per cent for families with \$15,000 or more. Under \$6,000 income, the family average is \$96 per year for alcoholic beverages, but the \$15,000-and-over family spends an average of \$646.

Drinking per person, for those 21 years and over, averages 2.1 gallons of whisky and other distilled spirits, 25.6 gallons of beer and other malt liquors, and 1.6 gallons of wine. During the past 10 years the per capita consumption of distilled spirits has increased 14 per cent, malt liquor consumption is down 10 per

TOTAL EXPENDITURES.....

FOOD.....

Food for home consumption.....	
Cereals and bakery products.....	
Meats, poultry and fish.....	
Dairy products.....	
Fruits and vegetables.....	
Other food for home consumption.....	
Meals bought away from home.....	
Between-meal snacks and supplements to packed lunches.....	

TOBACCO.....

ALCOHOLIC BEVERAGES.....

CLOTHING AND FOOTWEAR.....

Women's and girls' clothing.....	
Outerwear.....	
Underwear and nightwear.....	
Hosiery.....	
Footwear.....	
Hats, gloves and accessories.....	
Men's and boys' clothing.....	
Outerwear.....	
Underwear, nightwear and hosiery.....	
Footwear.....	
Hats, gloves and accessories.....	
Clothing for children under two years old.....	
Clothing material.....	
Clothing services.....	

SHELTER.....

Rented home.....	
Owned home.....	
Other shelter.....	

HOUSEWARES.....

Fuel, electricity and water.....	
Household operations.....	
Laundry and cleaning supplies.....	
Laundry and cleaning sent out.....	
Telephone and telegraph.....	
Domestic service.....	
Other household operations.....	
Household textiles.....	
Floor coverings.....	
Furniture.....	
Major appliances.....	
Small appliances and housewares.....	
Miscellaneous housewares items.....	

TRANSPORTATION.....

Automobile purchase.....	
Gasoline and oil.....	
Automobile operation.....	
Other transportation.....	

MEDICAL CARE.....

PERSONAL CARE.....

RECREATION.....

READING.....

EDUCATION.....

OTHER EXPENDITURES.....

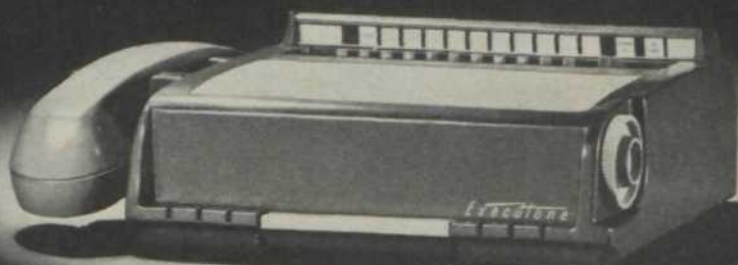
*Less than \$50 million.

habits will change by '75 (billions of dollars)

	1964			
Total	Under \$6,000	\$6,000-\$9,999	\$10,000-\$14,999	\$15,000 and over
400.0	96.0	119.0	87.0	98.0
81.0	21.6	25.6	17.2	16.6
61.9	17.4	20.6	12.7	11.2
7.9	2.5	2.7	1.5	1.2
19.4	5.2	6.6	4.0	3.6
9.0	2.6	3.0	1.8	1.6
11.4	3.2	3.7	2.4	2.1
14.2	3.9	4.6	3.0	2.7
17.0	3.6	4.3	4.0	5.1
2.1	0.6	0.7	0.5	0.3
8.5	2.6	3.1	1.5	1.3
12.0	2.7	3.4	2.8	3.1
33.6	7.0	9.3	8.0	9.3
17.3	3.4	4.6	4.3	5.0
9.2	1.7	2.2	2.4	2.9
1.5	0.4	0.5	0.3	0.3
2.1	0.5	0.6	0.5	0.5
2.7	0.5	0.8	0.7	0.7
1.8	0.3	0.5	0.4	0.6
11.9	2.5	3.4	2.7	3.3
7.5	1.5	2.0	1.8	2.2
1.4	0.3	0.5	0.3	0.3
2.0	0.5	0.6	0.4	0.5
1.0	0.2	0.3	0.2	0.3
0.2	0.1	0.1	*	*
0.8	0.2	0.3	0.2	0.1
3.4	0.8	0.9	0.8	0.9
49.9	13.1	15.3	9.7	11.8
17.0	8.0	5.2	2.1	1.7
28.0	4.6	9.2	6.5	7.7
4.9	0.5	0.9	1.1	2.4
56.9	13.2	17.2	11.9	14.6
15.6	4.3	5.1	3.1	3.1
21.4	4.5	5.9	4.4	6.6
2.8	0.9	1.0	0.5	0.4
2.9	0.7	0.8	0.6	0.8
5.7	1.3	1.9	1.2	1.3
3.9	0.3	0.5	0.7	2.4
6.1	1.3	1.7	1.4	1.7
2.6	0.5	0.8	0.6	0.7
5.8	1.3	1.8	1.4	1.3
2.4	0.4	0.7	0.6	0.7
4.6	1.2	1.7	0.8	0.9
1.5	0.4	0.4	0.3	0.4
3.0	0.6	0.8	0.7	0.9
50.8	12.5	15.6	11.8	10.9
21.5	5.2	6.3	5.3	4.7
13.5	3.7	4.8	2.9	2.1
12.0	2.9	3.7	2.8	2.6
3.8	0.7	0.8	0.8	1.5
25.0	6.0	7.6	5.3	6.1
7.0	1.8	2.2	1.5	1.5
20.0	3.8	5.7	5.2	5.3
5.0	1.2	1.5	1.1	1.2
6.0	0.6	1.1	1.6	2.7
44.3	9.9	11.4	9.4	13.6

	1975			
Total	Under \$6,000	\$6,000-\$9,999	\$10,000-\$14,999	\$15,000 and over
640.0	51.0	195.0	168.0	226.0
115.0	10.5	38.7	30.5	35.3
86.1	8.5	31.2	22.6	23.8
10.6	1.2	4.1	2.7	2.6
27.4	2.6	10.0	7.2	7.6
12.4	1.3	4.6	3.2	3.3
15.9	1.5	5.6	4.3	4.5
19.8	1.9	6.9	5.2	5.8
26.0	1.7	6.4	7.1	10.8
2.9	0.3	1.1	0.8	0.7
13.0	1.5	5.2	3.1	3.2
19.0	1.4	5.5	5.2	6.9
48.2	3.3	13.3	13.1	18.5
24.8	1.5	6.5	7.0	9.8
13.5	0.8	3.2	3.8	5.7
2.2	0.2	0.7	0.6	0.7
2.8	0.2	0.8	0.9	0.9
3.4	0.2	1.1	1.0	1.1
2.9	0.1	0.7	0.7	1.4
17.0	1.2	4.8	4.5	6.5
11.0	0.7	2.9	2.9	4.5
1.9	0.2	0.6	0.5	0.6
2.7	0.2	0.9	0.7	0.9
1.4	0.1	0.4	0.4	0.5
0.3	0.1	0.2	*	*
1.1	0.1	0.4	0.3	0.3
5.0	0.4	1.4	1.3	1.9
80.2	7.2	25.7	19.3	28.0
21.3	4.4	8.7	4.1	4.1
49.2	2.5	15.5	12.9	18.3
9.7	0.3	1.5	2.3	5.6
93.5	7.2	29.2	23.9	33.2
24.1	2.3	8.5	6.1	7.2
36.5	2.5	10.3	9.0	14.7
4.3	0.5	1.7	1.1	1.0
4.8	0.4	1.3	1.2	1.9
11.2	0.8	3.8	2.8	3.8
5.8	0.1	0.7	1.1	3.9
10.4	0.7	2.8	2.8	4.1
4.4	0.3	1.3	1.2	1.6
9.4	0.7	3.0	2.7	3.0
4.1	0.2	1.1	1.2	1.6
7.4	0.7	2.9	1.6	2.2
2.5	0.2	0.7	0.7	0.9
5.1	0.3	1.4	1.4	2.0
80.5	6.7	26.0	23.2	24.6
34.5	2.8	10.3	10.4	11.0
22.5	2.1	8.8	6.3	5.3
18.5	1.5	6.0	5.3	5.7
5.0	0.3	0.9	1.2	2.6
45.0	3.6	14.2	11.6	15.6
12.0	1.1	3.9	3.2	3.8
35.5	2.2	9.9	10.5	12.9
8.0	0.6	2.5	2.2	2.7
11.5	0.3	1.8	3.2	6.2
78.6	5.4	19.1	19.0	35.1

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MARKETS IN '75

continued

cent, and wine drinking is up two per cent.

3. Clothing and footwear

The proportion of the consumer dollar spent for clothes and shoes has dropped steadily during recent years, from 10 per cent in 1950 to 8.4 per cent this year. The 1975 proportion of spending is expected to drop to 7.5 per cent.

However, this spending in dollar amounts will be 43 per cent above the 1964 level.

Families with income under \$6,000 average \$250 a year for clothing and footwear. Families with \$15,000 and over spend an average of \$1,937.

Women's and girls' clothing

Women's and girls' clothing makes up 48.6 per cent of all clothing expenditures for families with income under \$6,000, but 53.8 per cent for families with income of \$15,000 and over.

While lower-income families allot a smaller proportion of their total clothing expenditures for women's and girls' clothing, they make up a substantial part of the total market. Of all dollars spent for women's and girls' clothing, 20 per cent is spent by the 47 per cent of U. S. families with income under \$6,000. But the eight per cent of families with \$15,000 and over income form 29 per cent of the market.

Spending for women's and girls' clothing is expected to climb 43 per cent by 1975.

Outerwear

Expenditures for dresses, skirts, blouses, coats, suits, sweaters and other women's and girls' outerwear will total about \$9.2 billion this year. The amount increases from \$61 for families with income under \$6,000, to \$604 for families with income of \$15,000 and over. This spending is expected to reach \$13.5 billion in 1975, up 47 per cent from this year.

Underwear and nightwear

This year's expenditures for women's and girls' slips, corsets, pajamas, nightgowns, robes and other underwear and nightwear items total 4.5 per cent of all clothing and footwear expenditures. Spending for these items averages 5.7 per cent at the under \$6,000 income level, but drops to 3.2 per cent for income of \$15,000 and over. These expenditures average \$25 per year for all

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(There. Doesn't that make the crumpled fender hurt a little less?) In an age of unreason, how come we're so reasonable?

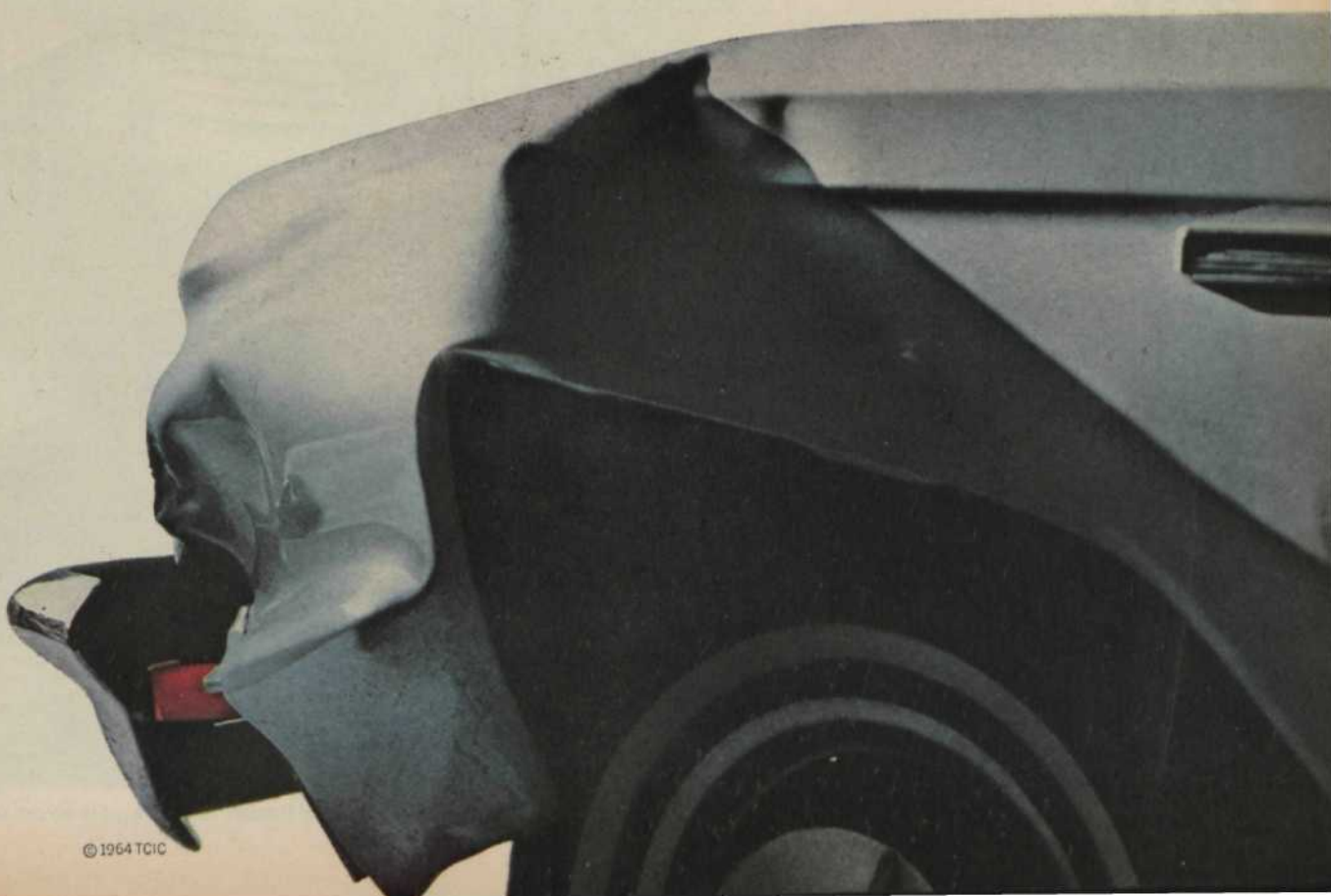
We figure that when you see how fair we are, maybe you'll tell your agent to place *your* insurance with *us* next time. (An amazing number of our new policyholders switched to us after being hit by one of our old policyholders.)

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CHEVROLET work



From front to rear of picture: Chevy-Van, Step-Van 7, Series 60 truck with van body, Series 80 diesel tractor. 1/2-ton panel is across the street.

power

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Chevrolet Workpower is a delivery truck with a body designed for handling your kind of loads.

And with an engine that keeps cool in tough stop-and-go delivery service and doesn't drink too much gas.

And with a chassis that makes light of heavy cargoes, gives a smooth ride, and keeps repair bills to a minimum. That's Chevrolet Workpower—a delivery truck that fits your job, makes your work easier and, above all, keeps costs low!

The right model for your work is somewhere in Chevy's long strong line for '65. Nowhere else will you see so many covered delivery trucks to choose from. There's the low-cost Chevy-Van—211 cubic feet of load space surrounded by the latest in economy-truck design. For walk-in van users, eleven Step-Van models come ready-made in all sizes. Conventional panels, ½-ton and 1-ton, are available. Also, there are seven different forward control chassis and many chassis-cowl and windshield cowl models to go with whichever special body you require.

You can now get a Chevy that's virtually built to fit your business.

And powered to fit it with economical Chevrolet 4- or 6-cylinder engines or powerful V8's. In addition, Chevy medium-duty models for '65 now offer new lower cost diesels that are ideal for many city delivery operations.

Contact your Chevrolet dealer for whatever you require in a truck. Because Workpower is what he's got this year and that means top-quality hauling equipment in all sizes and shapes from Chevy-Van all the way up to heavyweight tandems. . . . Chevrolet Division of General Motors, Detroit, Michigan.



**THE LONG STRONG
LINE FOR '65**



SOUTHERN-BASED LIFE INSURANCE COMPANIES LEAD NATION IN RATE OF GAIN

*Growth Rate of Life Companies in Alabama, Georgia, Florida
and Mississippi Nearly Triples National Average*

In the period 1953 through 1963, assets of life insurance companies headquartered in the four-state area increased from \$666 million to more than \$2.1 billion, a gain of 215 per cent. During the same ten years, asset growth for life insurance companies nationally was 84 per cent.*



The resources of these home-grown life insurance companies in Alabama, Georgia, Florida and Mississippi provide a source of investment funds enhancing the opportunity for sustained business and industrial expansion.

The growth potential for this area is backed up further by an ample and expanding supply of electric power furnished by The Southern Company system.

During the period 1953-63, inclusive, Southern's affiliated companies spent nearly one and one-half billion dollars for generating plants and transmission and distribution facilities. An additional \$600 million expansion program is planned for the period 1964-66.

All these things add up to create a situation of unique opportunity.

The continuing progress potential of this four-state area may be seen in these comparisons of life insurance company growth:

	Companies Based In	
	4-State Area	United States
Rate of Gain 1953-63		
Life Insurance in Force	266%	151%
Premium Income	156%	79%

SOURCE: BEST'S LIFE INSURANCE REPORTS

*Power and Progress...
Partners in the New South*

*Best's Life Insurance Reports

THE SOUTHERN COMPANY



3390 PEACHTREE ROAD, N.E., ATLANTA

Alabama Power Company Birmingham, Alabama
Georgia Power Company Atlanta, Georgia
Gulf Power Company Pensacola, Florida
Mississippi Power Company Gulfport, Mississippi
Southern Electric Generating Co. Birmingham, Alabama
Southern Services, Inc. Birmingham, Alabama

MARKETS IN '75

continued

families. This spending is expected to rise 47 per cent by 1975.

Hosiery

Purchases of women's and girls' stockings, anklets and socks total 6.2 per cent of the clothing and footwear dollar.

The average expenditure for all families is \$35 per year, but is \$18 for families with under \$6,000 income, and rises to \$104 for families in the \$15,000-and-over bracket.

Purchase of women's and girls' hosiery is expected to rise 33 per cent.

Footwear

The portion of total clothing and footwear expenditures allocated to women's and girls' footwear is highest for families with incomes of \$10,000 to \$14,999, averaging 8.8 per cent. Dollar expenditures per annum rise from an average of \$18 for families with incomes under \$6,000 to \$146 for families with \$15,000 and over. This spending is expected to increase 26 per cent by 1975.

Hats, gloves and accessories

Spending for women's and girls' hats, gloves, handbags, umbrellas, handkerchiefs, belts, watches, jewelry and similar items will total 5.4 per cent of all clothing and footwear expenditures. Dollar expenditures this year average \$11 for all families with income under \$6,000 but climb to \$125 for families with income of \$15,000 and above.

Spending for these items is expected to climb 61 per cent.

Men's and boys' clothing

Spending for men's and boys' clothing this year will be 35.4 per cent of the total clothing and footwear bill. The dollar spending figures increase from an average of \$89 per year for families with income under \$6,000 to \$687 for families with income of \$15,000 and over. Of the total dollar market for men's and boys' clothing, more than 50 per cent is in families with income of \$10,000 and over.

Outerwear

Sales of men's and boys' suits, coats, jackets, shirts and other outerwear items will be 22.3 per cent of all spending on clothing and footwear. Families with income under \$6,000 average \$54 per year for men's and boys' outerwear, while the \$15,000 and over families average \$458.

This spending is expected to



Miss Shirley Kay, Hobart North Welding Supply, Inc. (address on request)

Why Hobart North Welding Supply uses a postage meter for 5 letters a day

...plus 300 statements at the end of the month.

"My boss, Mr. E. J. Mors, pops in here in the morning, spends the rest of the day calling on customers," says Miss Shirley Kay. "I'm alone most of the time, answering the phone, and taking orders. We have very little mail. But at the end of the month I do have 300 statements to get out, and I'm certainly glad we have a postage meter."

Your mail may be small and not seem to be a problem, but you can certainly benefit with a DM, the little low-cost Pitney-Bowes desk model postage meter, made for the small, mailer. It eliminates messy stamp sticking, and rush trips to the postoffice, sponge cups, locked stamp boxes, stocking pre-stamped envelopes. The DM improves your disposition as well as your mail!

The meter supplies any amount of postage you need, when you need it. Prints it directly on the envelope, or on tape for parcel post. Has a moistener to make sealing easier and faster. Metered mail also needs less

handling in the postoffice, can often make earlier trains and planes.

And with every meter stamp you can print your own small ad, if you want one.



More than 133,000 small businesses now enjoy the convenience, efficiency, and economy of the DM for about 30¢ a day. And better than one-third of DM users average less than \$1 a day in postage!

There are a dozen other meter models, powered and hand operated. Call any of the 190 PB offices for a demonstration of the meter you need. And ask to see the new PB Addresser-Printers for machine addressing.

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711 Third Avenue

New York, New York 10017

MARKETS IN '75

continued

reach \$11 billion in 1975, up 47 per cent from this year.

Underwear, nightwear and hosiery

This year's expenditures for men's and boys' undershirts, shorts, pajamas, socks and similar items will total 4.2 per cent of all consumer spending for clothing and footwear.

Footwear

Men and boys will spend about \$2 billion this year for shoes, slippers and rubbers. These expenditures are expected to increase 35 per cent by 1975.

Hats, gloves and accessories

Men and boys will spend about \$1 billion this year for hats, gloves, belts, handkerchiefs, watches, jewelry and other accessories. That's about three per cent of clothing outlays at all income levels. Spending for these items is expected to be up 40 per cent by 1975.

Clothing for children under two years old

This year's expenditure for clothing children under two is about 0.6 per cent of all clothing and footwear expenditures. Families with income under \$6,000 use about 1.4 per cent of their clothing budget for children under two, but the proportion drops steadily as income rises—there are relatively few children under two years of age in high-income families.

Expenditures for clothing children under two are expected to increase 50 per cent by 1975.

Clothing materials

Consumer expenditures for yard goods, yarns, pins, needles and other materials and supplies used in making clothing at home will total about \$800 million this year. They are expected to increase 38 per cent by 1975.

Clothing services

Consumers will spend about \$3.4 billion this year for cleaning, pressing, dyeing and storage of clothing, shining and repairing shoes and similar services.

This is 10.1 per cent of the total expenditures for clothing and footwear.

Families with income under \$6,000 spend about \$29 a year, and those with \$15,000 and over spend about \$187.

Spending for clothing services is

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SOLD TO: <i>MRS. JACK ROBINSON</i>					
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WE THANK YOU FOR YOUR PATRONAGE					
CUSTOMER'S SIGNATURE <i>Mrs. Jack Robinson</i>					
DRIVER ROUTE	DELIVERY DATE	IF C.O.D. AMT. TO BE COLLECTED		C.O.D.	
DELIVERY RECORD		<i>26 5791</i>	<i>00</i>	<i>39.03</i>	<i>TL</i>
ADDRESS LABEL		IF C.O.D. AMT. TO BE COLLECTED		C.O.D.	
THE NATIONAL STORE		<i>26 5791</i>	<i>00</i>	<i>39.03</i>	<i>TL</i>
SEND TO: <i>MRS. JACK ROBINSON</i>					
STREET <i>123 MAIN ST.</i>					
CITY <i>YOURTOWN</i> STATE <i>U.S.A.</i>					
CONTENTS: MERCHANDISE RETURN POSTAGE GUARANTEED PARCEL MAY BE OPENED FOR POSTAL INSPECTION IF NECESSARY <small>© 1978 NCR K-1728-20 P-140000 NCR</small>					

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N

C

R

MARKETS IN '75

continued

expected to increase 47 per cent by 1975, reaching \$5 billion.

4. Shelter and housewares expenditures

Spending for shelter and housewares makes up 26.7 per cent of all consumer spending. Families with income under \$6,000 allot 27.4 per cent of all spending to shelter and housewares, but the proportion drops to 24.8 per cent for families with incomes of \$10,000 to \$14,999,

then rises to 26.9 per cent for families with \$15,000 and over income.

Average expenditures for families with income under \$6,000 is \$939 per year, while families with income of \$15,000 and over average \$5,499.

Shelter

The proportion of total spending for shelter is lowest for families with income of \$10,000 to \$14,999, being 11.1 per cent. The proportion rises sharply for smaller-income families, with those having \$2,000 and under spending over 20 per cent of their income for shelter. Families with \$15,000 and over income allot only 12 per cent for shelter.

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Rented home

Rented home expenditures, which include rent, repairs and special fees, total 4.3 per cent of total consumer expenditures. They are expected to increase 25 per cent by 1975.

Owned home

Expenditure for owned homes includes interest on mortgages, taxes, property insurance, repairs and replacements. Families with income under \$6,000 allot only 4.8 per cent of total spending to owned homes, but the proportion rises to 7.9 per cent for families with \$15,000 and over.

Other housing

Other housing expenditures include payments for hotel accommodations, vacation homes, lodging while travelling and lodging for students away from home. This spending soars as income rises, and is expected to climb 98 per cent by 1975.

Housewares

Spending for housewares makes up 14.2 per cent of all consumer spending. By 1975, it's expected to increase 64 per cent.

Fuel, electricity and water

These expenditures are 3.9 per cent of all consumer spending.

Annual spending for utilities averages \$262 for all families, rising from \$154 for families with income under \$6,000 to \$646 for families with \$15,000 and over income.

Household operations

This expenditure group includes laundry and cleaning supplies, laundry and cleaning sent out, telephone and telegraph, domestic service and similar household expenditures. They make up 5.4 per cent of all consumer spending.

Individual items making up household operation expenditures show varying trends as income increases. Expenditures for domestic service rise sharply with higher incomes. Families with income under \$6,000 allocate only 0.3 per cent of total expenditures for domestic service, while families with income of \$15,000 and over allocate 2.4 per cent. Telephone and telegraph expenditures take a larger portion of the spending by \$6,000 to \$9,999 income families, and both lower and higher income families allot smaller portions.

Household textiles

Spending for sheets, pillowcases, blankets, bedspreads, curtains, draperies, tablecloths, slipcovers, towels and other household textile items



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MARKETS IN '75

continued

varies from \$18 a year to \$146 a year, depending on income bracket.

Floor coverings

Spending for rugs, carpets, linoleum and other household floor coverings will make up 1.5 per cent of all consumer spending this year. These expenditures are expected to total \$9.4 billion in 1975, up 62 per cent.

Furniture

Furniture spending will be 0.6 per cent of all consumer spending this year. Furniture spending is divided 44 per cent for the living room, 15 per cent for the dining room, 36 per cent for the bedrooms and five per cent for the kitchen, porch and garden. This spending is expected to climb 71 per cent by 1975.

Major appliances

Spending for refrigerators, home freezers, stoves, washers, dryers, air conditioners, sewing machines and other major appliances will total about \$4.6 billion this year. This is 1.2 per cent of consumer spending. Peak spending proportion for major appliances is the \$6,000 to \$9,999 income families, which allocate 1.4 per cent of total spending to major appliances. Families with income under \$6,000 allocate 1.3 per cent of total spending to major appliances, while families with income of \$10,000 and over allocate only 0.9 per cent.

Small appliances and housewares

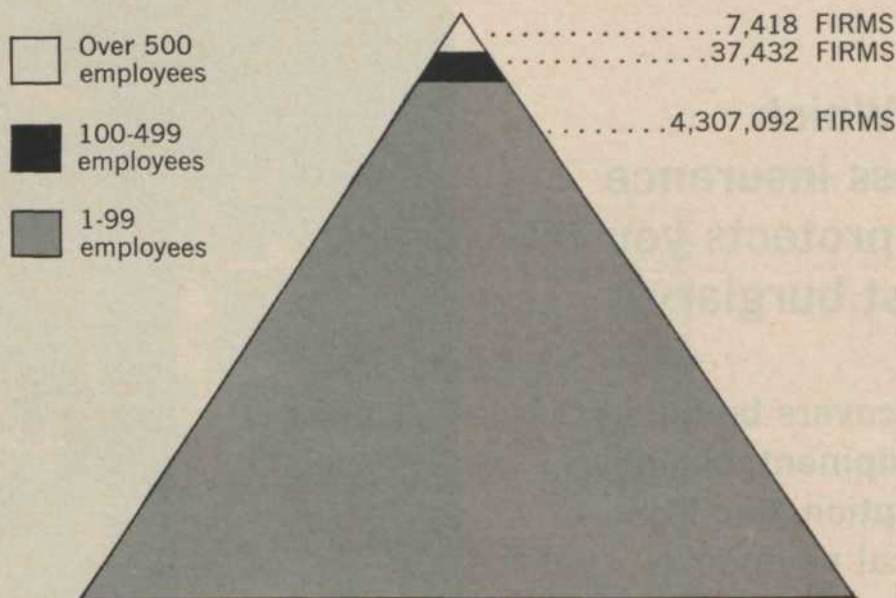
Toasters, coffeemakers, irons, fans, china, flatware, pots, pans, bowls, brooms, mops, clotheslines and many similar items make up the small appliances and housewares category. Spending for these items totals about 0.4 per cent of all consumer spending. It's expected to rise 67 per cent by 1975.

Miscellaneous housewares items

Miscellaneous housewares expenditures include purchase of lamps, light bulbs, clocks, pictures, fireplace equipment, typewriters, baby carriages, luggage, lawn mowers, power tools, and similar items, plus insurance premiums paid on personal property. These expenditures total about \$3 billion this year, amounting to 0.8 per cent of all consumer spending. This averages \$21 per year for families with income under \$6,000, but rises to

THE BUSINESS MARKET

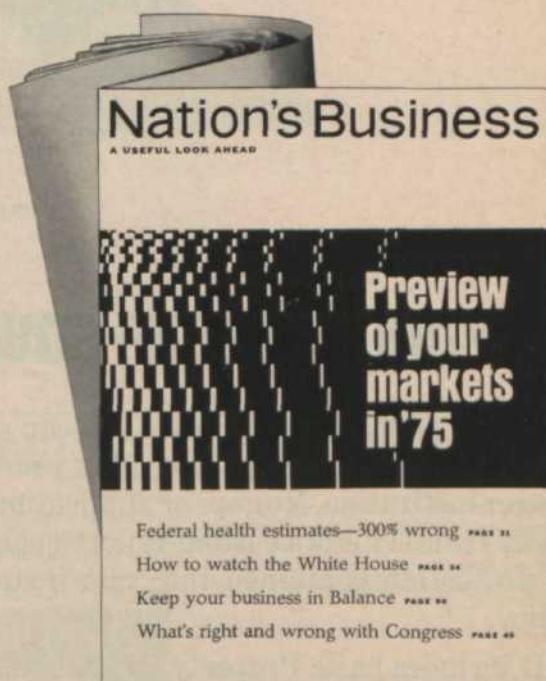
ANALYSIS BY EMPLOYEE SIZE



SOURCE: U.S. Department of Commerce

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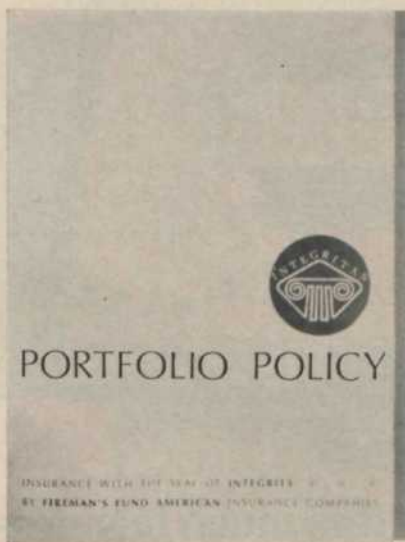
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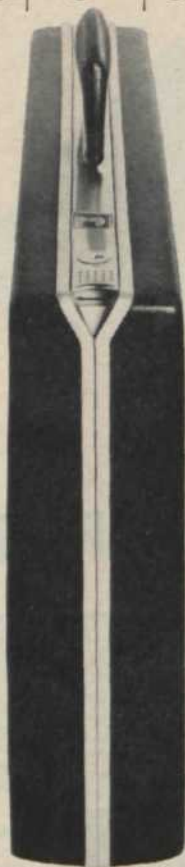


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MARKETS IN '75

continued

\$187 for families with \$15,000 or more income.

5. Transportation expenditures

Consumer spending for private and public transportation is about 12.7 per cent of people's spending. It's expected to increase 58 per cent by 1975.

Automobile purchases

Families with \$10,000 to \$14,999 income allocate 6.1 per cent of total consumer expenditures to automobile purchases, but the proportion drops to 5.4 per cent for families with income under \$6,000, and 4.8 per cent for families with income of \$15,000 and over.

Automobile purchases are expected to rise 60 per cent by 1975.

Gasoline and oil

Gasoline and oil expenditures this year will total some 3.4 per cent of all consumer spending. Families with income under \$6,000 use 3.9 per cent for gasoline and oil, the \$6,000 to \$9,999 income family uses 4.0 per cent, but the proportion drops to 2.1 per cent for families with \$15,000 and over income. Average purchases for all families is \$227 per year, with the under \$6,000 family spending \$132, and the \$15,000-and-over family spending \$437.

Spending for gasoline and oil is expected to be up 67 per cent in 1975.

Automobile operation

Lubrication, washing, tires, tubes, batteries, repairs, parts, insurance, registration and other automobile operation expenditures will total about three per cent of total consumer expenditures this year. This spending is expected to increase 54 per cent by 1975.

Other transportation

Fares for planes, trains, buses, ships, subways and taxis, car pool payments and expenses for rented cars and utility trailers this year will total about one per cent of total consumer expenditures. Families with income under \$10,000 use 0.7 per cent of total expenditures for other transportation, but the proportion increases to 1.5 per cent for families with \$15,000 and over income. Average expenditures for all families is \$64 per year.

6. Other expenditures

Expenditures for medical care, personal care, recreation, reading and education total about \$63 bil-

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MARKETS IN '75

continued

lion this year, or 15.8 per cent of all consumer spending. These expenditures are rising faster than other items, and are expected to increase 78 per cent by 1975.

Medical care

Medical care expenditures, including those for prepaid medical care, direct hospital costs, physicians, dentists, drugs, medicine, vitamins, nursing care, X-rays and similar expenditures, are about 6.3 per cent of all consumer expend-

itures. Families with income under \$6,000 average \$214 a year for medical care, but these expenditures rise to \$1,271 for families with income of \$15,000 and over.

Personal care

Expenditures for personal care, including haircuts, waves, shampoos, tinting, toilet soap, shaving supplies, cleaning tissues, face powder, hair equipment and preparations and similar items are 1.8 per cent of all consumer expenditures.

Families with income under \$6,000 allot 1.9 per cent of total expenditures to personal care items, but the proportion drops to 1.5 per

cent when income reaches \$15,000. Families with income under \$6,000 spend an average of \$64 a year for personal care, while families with over \$15,000 income average \$312.

Recreation

Recreation expenditures include purchase of television sets, radios and musical instruments, expenditures for golf, baseball and other participant sports, club dues and memberships, hobby expenditures, admission to movie theaters, purchase of camping equipment, gambling losses and similar items. Families with income under \$6,000 use four per cent of total expenditures for recreation. The proportion increases to six per cent for families with income of \$10,000 to \$14,999, but drops to 5.4 per cent for families with \$15,000 and over.

Reading

Expenditures for newspapers, magazines and books, excluding school and technical books, total about 1.3 per cent of all consumer spending.

Families at all income levels spend approximately this proportion for reading, although the amount increases from \$43 for families with income under \$6,000 to \$250 for families with income of \$15,000 and over.

Reading expenditures are expected to increase 60 per cent by 1975.

Education

Education expenditures include tuition and fees for colleges and professional schools, boarding schools, business and secretarial schools, technical and trade schools, as well as instruction costs for music, dancing, swimming, driving and similar costs. These expenditures total \$6 billion this year, or 1.5 per cent of total consumer spending.

Families with income under \$6,000 use 0.6 per cent of total spending for education, but the proportion rises as income increases, with \$15,000-and-over families allocating 2.8 per cent to education. Average expenditures for families with income under \$6,000 is \$21 a year for education, but those with income of \$15,000 and over spend \$562.

Spending for education in 1975 is expected to total \$11.5 billion, up 92 per cent from this year. **END**

REPRINTS of "Preview of Your Markets in '75" may be obtained for 35 cents a copy, \$16 per 100, or \$145 per 1,000 postpaid from *Nation's Business*, 1615 H St. N.W., Washington, D. C. 20006. Please enclose remittance with order.



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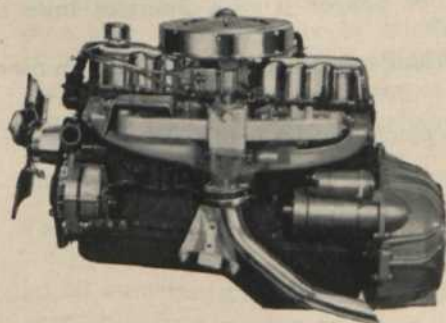
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KEEP YOUR BUSINESS IN BALANCE

The risk of damaging dislocation is always present in a company. These recommendations can help you head off the dangers before they get out of control

THE ABILITY to maintain balance among disparate forces is a basic mark of good managing.

Imbalance in any business can run over a wide range. It could be too much conservatism or too ardent frontierism in the top echelon. In a given department it could be too many procedures, too much paperwork and too little output. Or, it could be a boss's pattern of being too impersonal and unapproachable. Each can produce trouble.

Business management is dynamic, asserts Don G. Mitchell, chairman of the board of the American

Management Association, and it is precisely because of this that he and other business leaders regard balance as essential for a manager to cope with the forces inherent in a dynamic activity.

The manager's sense of balance is always under fire: Relax or tighten up on controls? Too much or too little concern with costs? Keep the organization structure tight or temper it with informal lines of communication?

To attain working balance in management, an executive should—

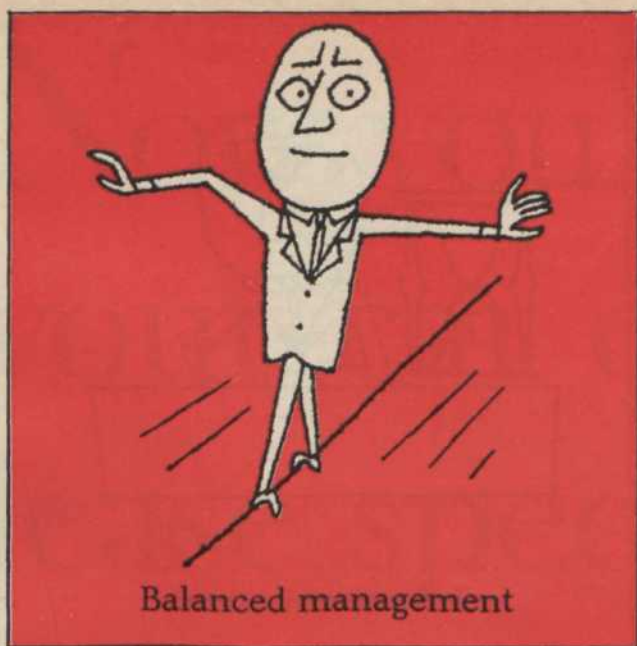
- Know the elements essential to balanced management.
- Be aware of what causes imbalances.
- Deal with these causes.
- Use effective balance wheels.

From the broad view, balanced management is the center of gravity at which results show attainment of profits and assurance of strength for years ahead.

As seen by the executive team, balanced management is that point of synchronization where men on the team are hitting on all cylinders, decisions are made and carried out and good coordination is maintained among their respective divisions.

As seen by the individual manager, balanced management is attained when he is well on top of all facets of his job and meeting his responsibilities. Views differ, however. A successful manager long associated with food processing defines balanced management simply as first things first. Another executive, who has moved up fast in the housing industry, contends that balanced management is a matter of ridding oneself of details so as to get on with crucial





issues and their early resolution. Still another businessman identifies early attention to problems involving people as the key to balance.

In the context of management of an enterprise, balanced management means the best use of company resources toward a sound goal—materials, money, people, ideas, energies, technology and other resources.

Stanford Research Institute, in its studies of successful growth companies, has found stability and balance to be notable characteristics of these firms. They have been able to withstand the stresses of size, diversification, change, financial pinches, turnover of key personnel and other developments.

Studies of successful up-and-coming smaller companies in the transportation, computer, pharmaceutical, insurance and other fields show that they have been able to do well not by attempting to compete with the giants in their industries but by striving to maintain their posture as prospering medium-sized concerns, characterized by realistic goals and well balanced management. Temptations to get thrown off balance are many, but they resist them.

To attain balance

Ten guidelines cover the essentials for getting balanced management, both for the firm and the manager.

1. Know your priorities; concentrate on them and avoid getting distracted by less important projects.
2. Solve problems so they stay solved, whatever they involve. In this way you reduce the harassment of problems only half-solved which tend to crop up repeatedly.
3. Exercise restraint in taking on jobs. Too many ventures at any given time can throw you off balance. Even worthwhile ideas and ventures have varying values and some have to wait their turn.
4. Know and practice the art of coordination; build in an understanding of policies, organizational clarity,

feed-back, working relationships, communication patterns and other requisites as you quarterback the coordination effort. This can enable you to stay in command of multiple activities and to reconcile differences among specializations.

5. Make sure your planning takes into consideration long-range, intermediate and short-term goals. Recognize that comprehensive planning is often the answer to the problem of imbalance.

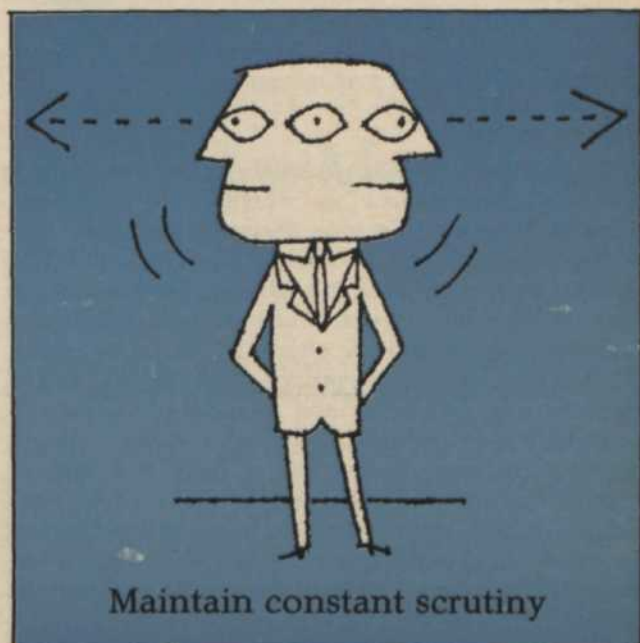
6. Be rational in your receptivity to new ideas. Don't go overboard on fads or cults. Guard against making a management gadget bag out of the new tools; know what they can do for your business and for your specific department and why, when and how to use them. The hazards of employee anxiety, displacement and impact on traditional values are imbalancing enough—don't compound them.

7. Show backbone in dealing quickly with conflicts, blind spots, office politics, obsolescence, harmful rumors and unethical behavior of subordinates. Such problems eat into the executive's time more deeply as they are left unresolved.

8. Delegate more to subordinates. Turn your attention to the extraordinary rather than the ordinary. Count on the self-sufficiency and technical competence of your subordinates to carry on not only the day-to-day management of their affairs, but also to relieve you of a good deal of your own workload.

9. Recognize that not all problems call for the full treatment. Guard against the tendency to go for complete surgery because of a report of some deficiency. Avoid the urge to write off, discard, overhaul. More balanced management often can be attained by some modification, a change, a more economical or simplified measure, improved supervision or new equipment in many cases.

10. Use your time wisely. Be available for consultation on problems which warrant your attention, but block out time to think as well as to do. Ward off



KEEP IN BALANCE

continued

the time-robbers in your office: paperwork, the telephone, visitors who drop in to socialize.

Constantly exercise surveillance over your organization. This means maintaining a look-out for such imbalancers as overstaffing or understaffing, unclear policies, erratic workloads, unprofitable meetings, obsolete systems and procedures. It calls for progress reports, assessment of supervisory performance, measurement, trouble-shooting and willingness to make adaptations when they appear warranted.

This kind of scrutiny enables you to sift the essential from the nonessential, the productive from the unproductive, the on-going from the near-misses and the priorities from the ordinary.

In essence, the key element is administrative judgment—judgment of what is significant, important, timely, responsive, resourceful and profitable.

Pinpoint the causes

A company is always susceptible to polarity tendencies—overdoing a thing or not doing enough of it. These vulnerabilities come in the external and internal operations of a business.

Imbalance is more visible, generally, in external activities. The firm may be growing topheavy in its labor-management relations. It may be putting too much effort into public affairs and politics, or too little. The company may be overinvesting or underinvesting in other enterprises, over-diversifying or not diversifying enough.

Internally, there are more temptations to go overboard at either pole and the effects are not so readily visible. Too much and too massive planning or too little and too limited; too complex a structure to the point of being overorganized or too simple and frugal and consequently underorganized—these are significant questions relative to internal balance.

Some companies are criticized for too much risk-taking and others for not enough; some for moving too fast and others for moving too slowly.

Alertness to polarity tendencies is vital to the attainment of balanced management.

Taking action

Who and what creates imbalance is as important to balanced management as whether the imbalance is valid or invalid. In some instances the scales may be purposely tilted. A baseball manager will shake up the team when it is in a slump. He temporarily creates imbalance in order to find the winning combination. Organizations often do the same thing. This is the pragmatic approach. The effort is to find a new center of gravity and to restore balance.

It is all right to disturb the balance, for example, when it becomes clear that a restrictive climate should yield to an atmosphere of more independent action. A shift such as this, in manager involvement in the decision-making process and in improved human relations, could warrant temporarily tipping the scales.

The most notable instances in which a valid im-



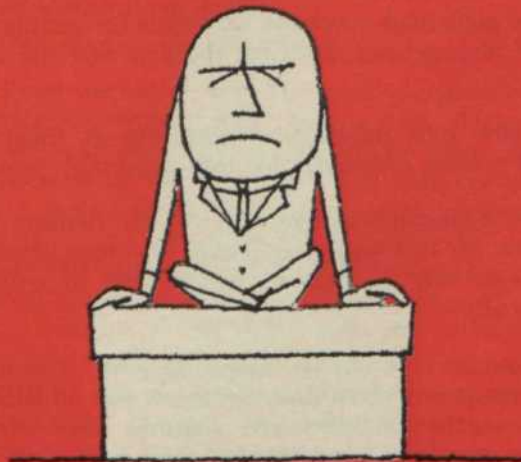
Take time to think

balance is created are when the company is tapping new markets, experimenting with new products or providing emphasis in one way or another. The process of growth is not all stability.

Moreover, temporarily creating an imbalance in order to tackle a special emergency is not only valid but mandatory.

Yet there are many other times when creating imbalances is poor business management. Unreasoned across-the-board cost reduction is a conspicuous example. Poor planning, undertaking too much at one time, whimsically revising budgets, tampering with policies that are basically sound—these, too, are imbalancers with little or no validity.

Balance generally is attained in well managed companies in the engineering-production-sales line. This is also true of the planning-financial management-product development sector of an organization. More and more such balance is being achieved in the



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KEEP IN BALANCE

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relationship between information technology, office management, reports communication and procurement decisions. In each case, of course, the balance is disturbed now and then and corrective steps taken.

There are other areas where vulnerability to imbalance can be a continuing source of trouble to a company and to the manager. Three such areas of concern are:

- ▶ Balance of priorities.
- ▶ Balance of power.
- ▶ Balance of functions.

Handling of priorities, for example, is vital. What to handle personally, what to delegate, what to downgrade in priority, what to treat as a related block of priorities rather than as separate problems. These issues test the manager's sense of balance.

A bank president recently reminded his subordinates of this thought:

One priority job done well is worth a dozen ordinary jobs done equally well.

Another significant area involves balance of functional specializations. There is always a tendency for one function to override another—sales over production, finance over purchasing. When these scales get tilted the imbalance is generally detected quickly and if there is a will on the part of management to correct this it is done.

The tendency exists even more among specializations within a given function. It may be the training unit in the personnel department, the press media unit in the public relations department, the equipment unit in the transportation office, the budget analysis unit in the finance division.

Sound management requires that, other things being equal, one specialization within a functional area should not be favored at the expense of another.

Nor should inequities develop or be continued for reason of tradition, some singular achievement in the past, overaggressiveness or politicking. Unless respective roles and contributions of all specializations are kept within balance, you risk conflict, high costs and questionable results. The successful manager knows this and acts accordingly.

The exercise of authority is another problem area. By the very nature of organization, management allocates authority, both in kind and in degree, to different levels of supervision. Certain types of authority are attached to functional staff offices, to plant managers, to special units such as inspection or auditing.

But the inevitable search for power by individuals leads to abuse of such authority. Authority may be overextended, misdirected, untimely or maliciously employed. The risks here are serious: encroachment on another man's domain, clashes over decision-making prerogatives, in-fighting, dominance of one function at the expense of another. Instances of line and staff conflict often are traced to the abuse of authority.

To maintain the balance of power one must regulate the exercise of authority so that it is not abused. This puts the executive to a crucial test. Objectivity, judgment, courage, decisiveness and firmness come into play.

Use balance wheels

Planning and control constitute the heart of balanced management and they are the balance wheels to effect it. They are the regulators, the stabilizers. Carter L. Burgess, president of American Machine & Foundry Co., regards planning as one of the cornerstones upon which successful enterprise depends. And, at the other end, control provides the intelligence for determining the degree of balance present in moving toward attainment of goals.

Stanley de J. Osborne, former president of Olin Mathieson Chemical Corp., observes that "when controls are properly established and thoroughly understood, they become one of management's greatest tools."

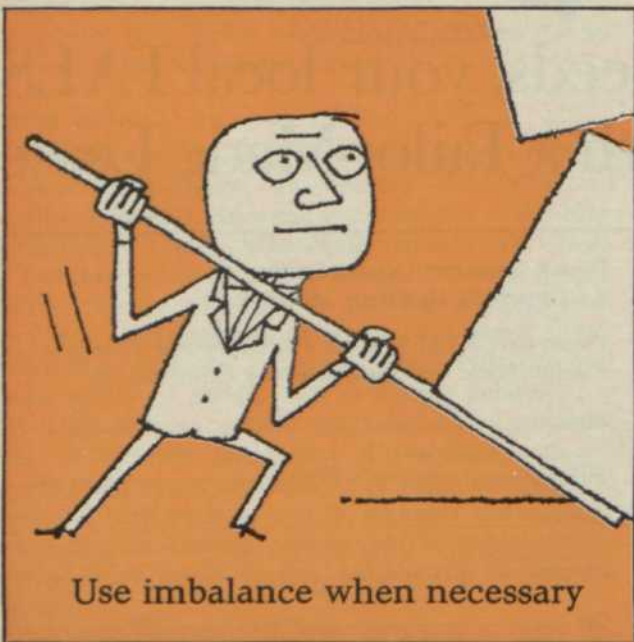
Sound policies, too, constitute a singularly persuasive tool.

Within a framework of planning and control capabilities, reinforced with sound policies and good executive direction, a management team derives its true strength in working to attain objectives.

As the individual manager practices the art of coordination, he becomes a contributing party to balanced management. He supports the balance wheels in distinguishing means from ends and too much management from too little. This is what the founding fathers of scientific management intended. It's what makes the difference between highly successful business and just getting by.

—NATHANIEL STEWART

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WATCH WHITE HOUSE

continued from page 35

the more conservative congressional and southern types with whom the President maintains close connections. Mr. Johnson's next round of appointments certainly will reflect something of the support he is receiving in normally Republican circles, but he seems too canny a politician to upset the liberal-conservative balance he has at least temporarily achieved.

The most interesting thing to watch about Mr. Johnson, if he wins, will be whether in the next year or so he can evolve a way of being President that is good for another four or eight years. An electoral win will mark him as a great success as a short-term President. He will have made it, however, by storming all the political fronts at once, single-handed, in an almost frantic exertion of political and public relations activity.

Somehow this seems unlikely to last. It will wear out the President physically, consume his political credit, disorganize the Administration and lose the country's interest. The press already shows some signs of disenchantment.

Mr. Johnson is a presidential do-it-yourselfer of the first order. Perhaps not since Herbert Hoover have we had in the White House a man so intent on personally overseeing everything done by his Administration. It seems a little disorderly, and it may be so, although persons who have watched Lyndon Johnson at close range report that he has a great ability to catch the gist of a briefing even though he is making phone calls and having his picture taken at the same time. Nevertheless, trying to clear everything through the President means that inevitably things get bottled up because no one else dares handle them, and he himself may be the victim of his offhand judgments.

Whether he likes it or not, President Johnson probably needs to slow down, save more time for the really important things, get some more staff that he likes or can't avoid listening to, and let them establish effective relationships with the key men in the Executive Office and the operating departments. The need seems to be greatest on the domestic affairs side, where the installation of several old Johnson men and the departure of Mr. Kennedy's Theodore Sorensen have left things a little out of focus. In foreign affairs, McGeorge Bundy not only has

survived but apparently has extended and tidied up his jurisdiction.

This suggests that there may be a law of compensatory presidential staff: The President demands the most orderly staff work in the fields where he has the least interest or competence and runs things in a looser or more personal manner in areas where he's surest of his own judgment. The records of Presidents Truman, Eisenhower and Kennedy would seem to support this rule.

Up to now, Mr. Johnson has concentrated on the issues and legislative proposals left by Mr. Kennedy. But old issues rapidly are being used up by the President's very successes, or made obsolete by time. Mr. Johnson's chances of being judged in history the great President he obviously wants so badly to be depend in part on whether he shows he can initiate as well as follow through.

There will be crises aplenty, but taking these as they come isn't enough. Columnists have been chiding the President for not making effective contact with the intellectuals and for concentrating on vote-seeking instead of thinking about how he will cope with the great issues.

However, several advisory committees and task forces have been working quietly, and if Mr. Johnson wins we shall see how he proposes to achieve the Great Society he talks about.

If Goldwater wins—

A Goldwater victory would bring more immediate, visible developments in the presidency. An early fascinating sight would be the view of Lyndon Johnson, a proud man, inviting to the White House and offering cooperation in the transfer of power to the man who had just defeated him.

That Mr. Johnson could bring himself to do this is almost certain. Every retiring President since Mr. Hoover has managed to do it, no matter how badly stung by the election results. In fact, the losers have sometimes been more gracious than the winners. Both custom and the national situation clearly would require presidential cooperation in this case.

There is now even some law pointing in this direction. A Presidential Transition Act passed last spring declares it the duty of all officers of the government to be mindful of problems caused by transitions in the office of President



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WATCH WHITE HOUSE

continued

and to exercise their responsibilities so as to minimize disruption and to promote orderly transitions. This presumably applies to the President as well as everyone else, although it is not specific about what he must do.

Mr. Goldwater could profit by the example of President Kennedy, who in 1960 had two men, Washington lawyer Clark Clifford and Columbia professor Richard Neustadt, working on take-over plans during the campaign. After the election Mr. Clifford became JFK's liaison man with the outgoing Ad-

ministration, while Professor Neustadt worked on organizing the Kennedy White House and Executive Office staff.

Relations between an outgoing President and his successor are always touchy. Yet some consultation between the two as a demonstration of national unity and a systematic effort to give the President-elect and his associates full information about pending problems, especially in the security area, are imperative. The difficulty this time, of course, is that the fields of foreign and military policy that provided at least some neutral ground for meetings of President Truman and Gen. Eisenhower, President Eisenhower and John F. Kennedy, have been such bitterly contested battlegrounds in this year's campaign.

Difficulties of communication on foreign and security affairs could be especially embarrassing or damaging to the national interest if a full-scale crisis arose in some part of the world between the election and inauguration. In such an event, Mr. Johnson would certainly want to give President-elect Goldwater complete background on the situation and what he proposed to do, and would probably feel reluctant to make any important new national commitments without at least the tacit assent, if not the open support, of his successor.

But after the charges of untruth and misrepresentation that have been thrown around, could Mr. Goldwater accept an estimate of a crucial military or diplomatic situation from the Johnson Administration? In a pinch, he might be in exactly the same kind of spot Franklin D. Roosevelt was with Mr. Hoover in the banking crisis of 1933—that is, in complete disagreement with the premises of his predecessor's policy, mistrustful of the information offered and reluctant to engage in any kind of cooperation for fear of compromising himself.

The President-elect can only try to protect himself in such situations by plenty of advance staff work and careful negotiations through liaison representatives.

Enlarging and reshaping the campaign organization into a White House staff, Cabinet and Administration is one of the President-elect's main concerns. This job used to be done on a shoestring by the President-elect himself and a trusted aide or two. They often made some hasty choices that were soon regretted and usually were able to produce only an unbriefed

skeleton force by inauguration day. Precedents for more systematic recruiting and organizing were set by General Eisenhower's pre-inaugural Hotel Commodore operation and the late Mr. Kennedy's famous talent hunt. These efforts produced early Cabinet selections and Administrations not only staffed in considerable depth but well started on their policy reviews by inauguration day.

Such operations are expensive, however. Mr. Kennedy's pre-inaugural activities ran the Democrats \$350,000 deeper into debt, even though many of the people involved contributed their time and traveled at their own expense. This time, recruiting and other advance work for Senator Goldwater would be greatly helped by the new Transition Act. Spending up to \$900,000 in public funds is authorized, mainly for the expenses of the President-elect, including salaries of staff and consultants, travel and office expenses. Funds under the Act also are available to the vice president-elect and to the retiring President for special post-inaugural expenses. The Act does not apply to Presidents or vice presidents who are continuing in office.

A tense business

Cabinet-making is always a tense business for the participants and an engrossing spectacle for the general public. The nature of a Goldwater Cabinet and supporting corps of top political executives is quite unpredictable.

Developing a new Administration's program consists of sorting out immediate possibilities from ultimate objectives. This process is always frustrating to crusaders whose hopes have been nourished on campaign oratory. Mr. Goldwater might find this especially difficult.

An array of task forces or advisory committees probably would be established to help absorb the shock of collision between impatient and cautious Republicans. Particularly urgent would be the federal budget for fiscal 1965-66, which would be already assembled and presented by the outgoing Administration, but which Mr. Goldwater would want to revise.

A Goldwater victory would be a severe test of the adaptability of the federal administrative set-up and career services, including the military. The Eisenhower Administration, coming in after 20 years of New and Fair Deal, had many initial doubts about whether it could work through the careerists

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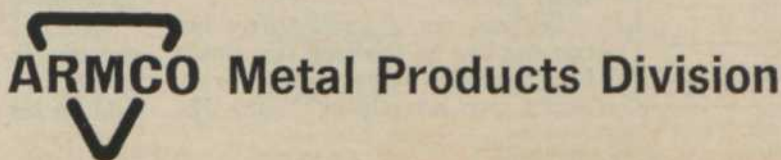
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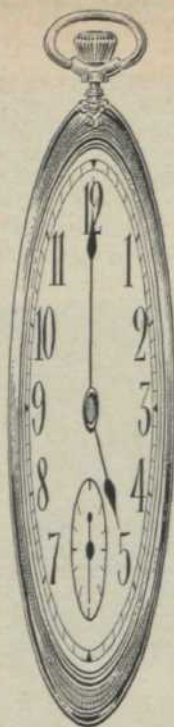
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WATCH WHITE HOUSE

continued

it found in key positions. These doubts were eventually pretty well resolved, but only after two years of tension, some localized reorganizations and purges and a change of the civil service rules to give the Administration control of more policy-making positions.

It is a safe bet that the Republicans, if they take time to find out, will discover that the careerists are far more flexible than they think. A good example is the Bureau of the Budget, which was regarded by many Republicans in 1953 as a center of New Deal profligacy and by many Democrats in 1961 as a willing tool of pinchpenny economy. The Bureau rode out both transitions with its top staff almost intact by making itself indispensable to the new Administration and taking seriously the doctrine that it has no policy views of its own—only the President's.

However, even though the Republicans this time might eventually decide it was not really necessary to tear down the whole government and start over, there would inevitably be at first a period of suspicion and demoralization, followed by hundreds of voluntary and involuntary departures of top career officers.

Two key areas

Either a Johnson or a Goldwater win may bring important developments in two areas: administrative reform and presidential relations with Congress.

Both candidates have commitments to economy that will lead to renewed efforts to run the government efficiently—and let the public know it. Major reorganizations are perhaps most likely under Sen. Goldwater, because his aim of eliminating or revising governmental programs will require more administrative tidying-up. Mr. Johnson, however, has been hatching some plans in this area. An across-the-board effort something like the two Hoover Commissions is not out of the question. There are opportunities for real gains in both operating economy and policy control by extending to other departments some of the methods Secretary McNamara has installed at the Defense Department.

Perhaps not a money-saver but constructive in the long run would be a thorough review of the President's own establishment, the Ex-

ecutive Office, which is 25 years old this fall. To the surviving original unit, the Budget Bureau, have been added the Council of Economic Advisers, the National Security Council, the Office of Emergency Planning, the Aeronautics and Space Council, the Office of Science and Technology, the Special Representative for Trade Negotiations, and now the new Office of Economic Opportunity which runs the poverty program.

Some of the units may have functions that can be eliminated or turned over to the departments. On the other hand, stronger presidential support may be desirable in some areas, such as economic policy planning and coordination.

Never before in this century have both parties run presidential and vice presidential candidates so closely identified with Congress. A closer knitting together of the presidency and the President's congressional party leadership is probably in the cards. Mr. Johnson already has inserted himself into the legislative process more forcefully than any of his predecessors, excepting possibly Woodrow Wilson and FDR.

Four more years of a Johnson Administration and the addition of Sen. Hubert Humphrey to the presidential team probably would strengthen the tie between the two ends of Pennsylvania Avenue, formalize further the now regular meetings between the President and the legislative leaders of his party and increase the tendency to regard the leaders as the President's men in Congress.

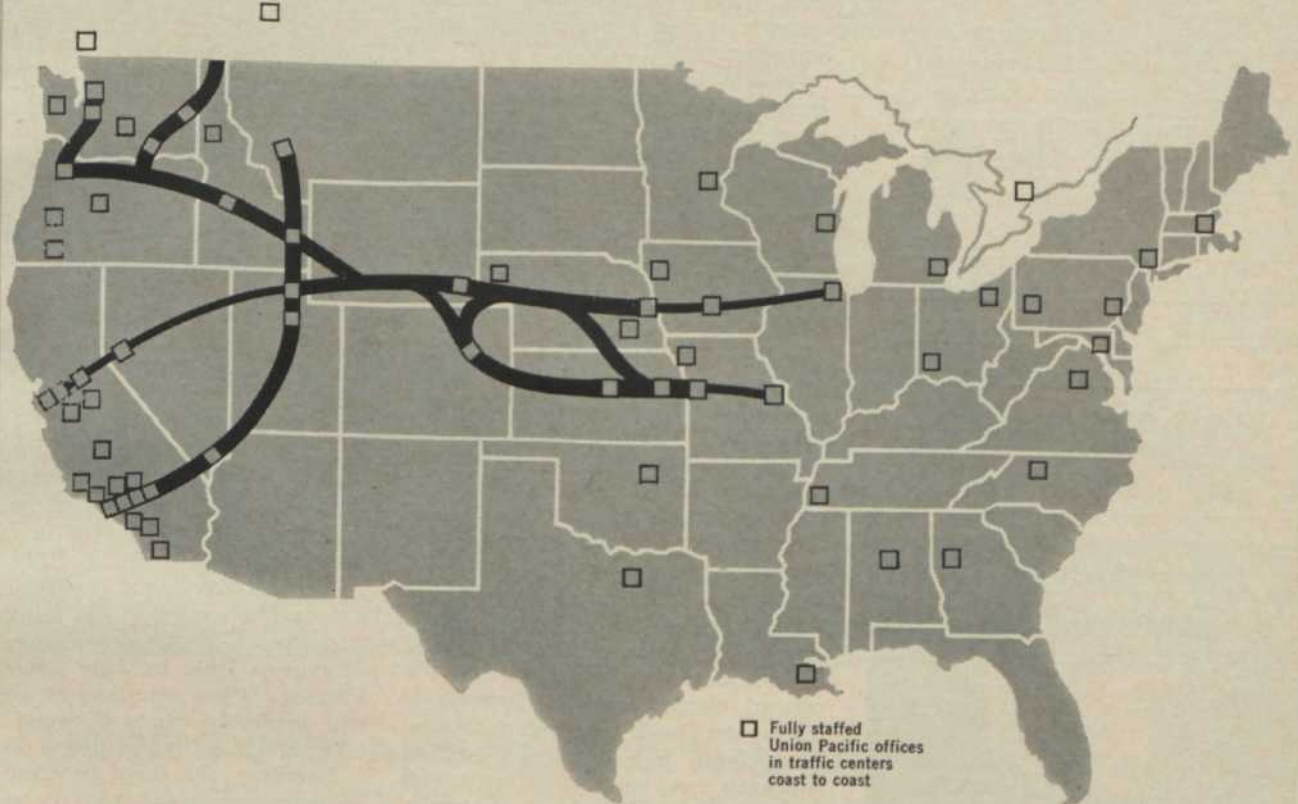
A Goldwater-Miller Administration might be close to Congress, too, but with the drift of power the other way. Traditional Republican doctrine calls for congressional supremacy over—or at least full equality with—the President.

Mr. Goldwater's personal congeniality and his concern for what he considers constitutionally correct may incline him to frequent consultation and clearance with Republican congressional leaders. But since he seems unlikely, even if elected himself, to bring in a Republican Congress, he would have to deal with men who were only congressional minority leaders. Overall relations between a President Goldwater and a Democratically controlled Congress could make General Eisenhower's congressional troubles look like a love feast.

President-watchers may or may not like the way the election turns out, but in either case there will be a lot to keep them occupied. **END**

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EUROPE TROUBLE

continued from page 39

capital over the Alps from Milan. When the idea of European unity was in full bloom, Italy might have expected considerable help from its partners in the Six in order to ride over its short-term difficulties and still keep up industrial expansion. But the other five did not respond generously to its crisis, although Italy received liberal credits from the U. S. The advice given to Italy by the Eurocracy in Brussels was that it should try to cure its inflationary troubles by credit and fiscal squeezes.

This was not entirely bad advice. Italy did need to damp down internal inflation. There are already signs that the measures it has taken have served to ease its short-term payments troubles. But there are also strong indications that this has only been at the expense of slowing Italy's previously extraordinary rate of growth.

This might not matter so much if Italy's problems promised to be an isolated, temporary case. But the probability is that, as tariff barriers dwindle to nothing between the Six countries, West Germany will assume a stronger competitive position than any of the rest, at least at the D-mark's present exchange rate. If, because of this, others of the Six follow in Italy's footsteps towards balance of payments troubles—and if the constant prescription from the central commission in Brussels is simply to check internal demand—some large part of the Common Market's long miracle of industrial growth might wither on its stalk. This would make last year's eight per cent jump in U. S. exports to the Common Market seem like Never-Never Land.

What can U. S. business do?

The implications of all this for American companies are:

There is a likelihood of less growth of demand in the Common Market over the next five years than during the last 10.

Almost certainly, the relative failure of the current tariff talks—and the continuance of tariff cuts within the Common Market—will make it more difficult for direct U. S. exports to get into Europe.

It is not easy to say what American businessmen can do about the first danger. It is easier to say what they can do about the second. In the event of the failure of the tariff talks, the best way for

U. S. business to get in under the net of the Common Market's external tariff would be by setting up more subsidiary plants in Europe. But here one runs into the question of how much opposition will arise.

Stated another way, to what extent are nationalist trends in Europe likely to breed antipathy to reliance on U. S. investment, especially in the big, new technological industries?

In de Gaulle's government, this antipathy is quite clearly present. It would be wise for Americans to realize what sort of anti-Americanism motivates de Gaulle. It is not a pathological dislike; there is nothing personal about it. It springs from a fierce pride in France.

General de Gaulle's own feelings of protectionist pride are more easily aroused in the military sphere than in the economic. That is why he so strongly opposes American domination of NATO.

In Italy, at the other extreme, political factors are on the side of U. S. business. Italian politicians fear a Gaullist-dominated Common Market, and the U. S. is regarded as a useful counterweight. General Electric's tie-up this September with Italy's Olivetti (to establish a joint-owned subsidiary for producing and marketing of electronic data processing equipment in Italy) has caused much less heartburning among Italian politicians than General Electric's merger with France's Machines Bull in July caused in France. Other countries in the Six will probably range between Italy and France in their outlook on this.

However, the third problem that is emerging springs from the greater competitiveness of German industry in comparison with other industry in the Common Market. This is leading big firms in France and Italy toward market-sharing agreements with German competitors where possible, and the cartel-minded Germans might show increasingly that they are not averse to this. Witness the vague proposals for a Volkswagen-Fiat-Renault market-sharing arrangement in automobiles; they have been followed by a specific campaign from the French and Italian motor industries that cars should be excepted from tariff cuts under the GATT talks, a request which the more competitive Germans naturally and fortunately reject. If more international cartels spread in Europe, U. S. concerns are likely to be among the principal sufferers.

Notice must also be taken of Brit-



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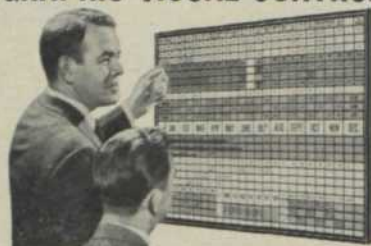
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EUROPE TROUBLE

continued

ish industrial efforts to get into Europe by the back door since the front door was slammed by General de Gaulle in January, 1963. One of the main economic reasons for Britain wanting to join the Common Market was the realization that modern technological industries need to operate in large markets on a large scale, as they can in America. Instances of the new backdoor approach include:

Rumored links between British and West German industries to compete with the U. S. in computers.

Anglo-Belgian deals in nuclear reactors for ships.

Anglo-French links in supersonic aircraft.

The present formalizing of ties between European banks in the face of U. S. competition.

All this adds up to further possible movements towards protectionism in Europe.

Trends in EFTA

The other big trade grouping in Europe is the European Free Trade Association, to which Britain, the Scandinavian countries and Switzerland belong.

EFTA has provided a rapidly expanding market in recent years. Total merchandise imports by EFTA countries amounted to \$26.4 billion in 1963, against \$24.6 billion in 1962, and \$14 billion in 1953.

Here are some political influences and trends to watch within EFTA:

1. The permanent organization of EFTA itself is liberal and outward-

looking, keen on granting preferences for imports from the underdeveloped countries. But, unlike the Brussels Commission in the Common Market, it has no real major influence over the policies of member countries.

2. What is more, there is the awkwardness that Britain itself faces a more serious balance-of-payments problem. The Labor Government is already trying to meet that problem—at least temporarily—by a new import tax.

In broad sum, political influences on the trade prospects in Europe are not good at present. Political influences rarely are. But our own recommendations would be:

Remember that the underlying economic situation in Europe—a rapidly more educated labor force working with a rapidly accumulating stock of even more modern capital equipment—makes sustained improvement in living standards in this market part of the natural order of things. It requires a pretty large degree of political stupidity to stop a market at this stage of development from expanding at around three to four per cent a year, with imports of manufactures and of some foodstuffs increasing approximately in proportion.

The present adverse political influences in Europe do not seem to us to be deep-rooted.

Unfortunately, it seems probable that protectionism will increase in Europe in the near future. Ultimately, however, the size of the European market for U. S. goods will depend much more on whether internal growth is maintained than on the level of tariffs or other restrictions imposed.

END

CONGRESS *continued from page 40*

the leadership, for example, not to have a rules committee. But then the leadership might have too much power, as it has in days past."

Another Democrat, Rep. Charles Bennett of Florida, says the most valid criticism of Congress today could be leveled not at its failure to pass legislation but at its tendency to pass too many costly measures and relinquish its powers to other branches of government.

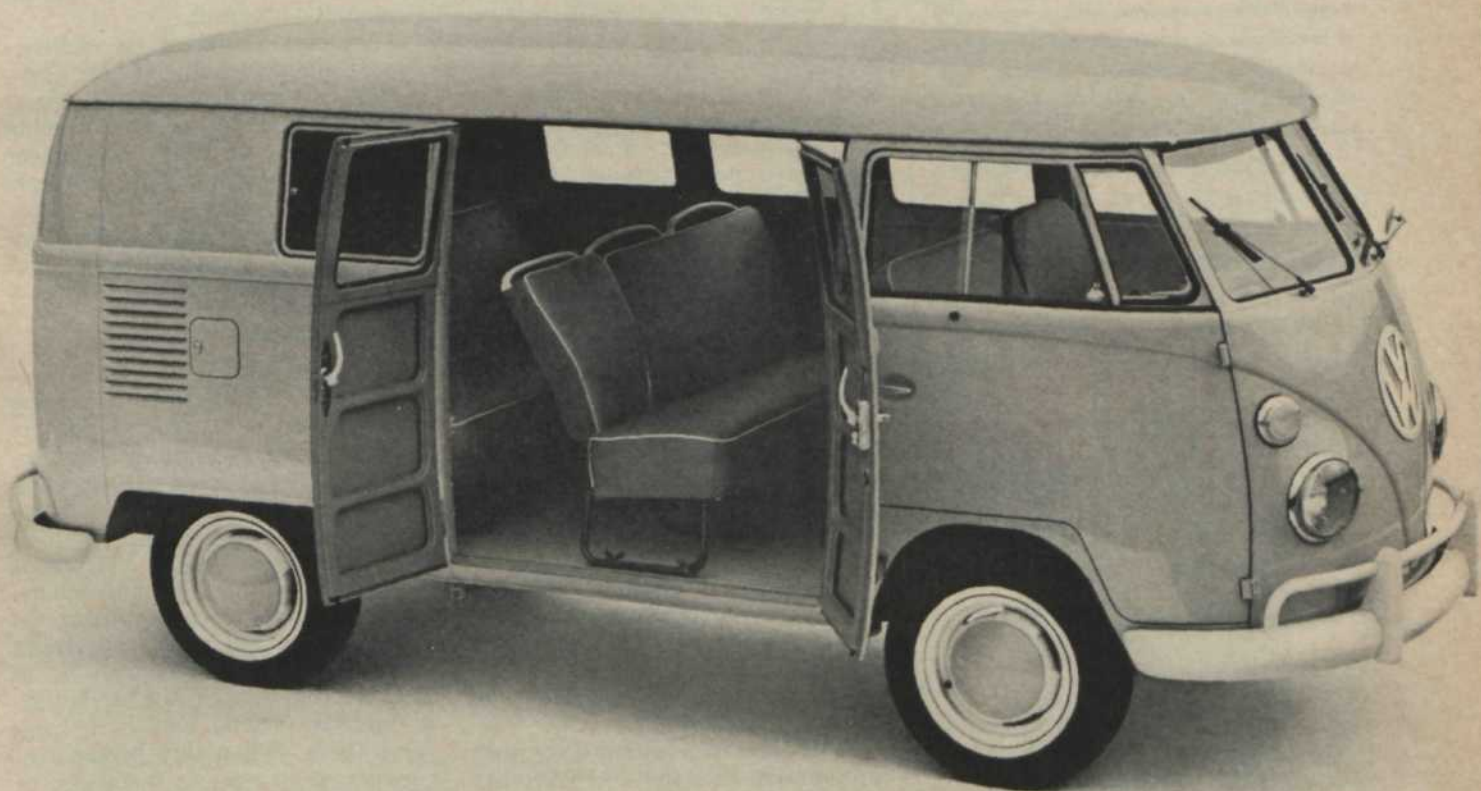
In the following article Professor Huitt looks at what's right and what's wrong with Congress.

BEFORE the next chapter in congressional reform begins, perhaps it

would be fair to raise broad questions which seem hardly to have bothered congressional critics in the past:

Why is Congress regarded as the weak sister in the grand triune? Why not the executive or the judiciary? In what ways is Congress so much less adequate to meet modern needs? How far can deliberate, self-conscious reorganization go? What are the limits and what prices must be paid? How much can the output be improved by structural and procedural change?

Why is Congress the prime target of criticism in the national government? Paradoxically, it appears to



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CONGRESS

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be one of the most successful governing bodies in the world, perhaps even in the history of the world. Compare its record with other legislatures. When Congress was created in 1789 the powers of Parliament were shared by Lords and Commons and the King of England was chief executive in fact as well as name. In France the national assembly had not sat in 200 years and her divine right king would call it much too late. European parliaments generally retained their feudalistic character.

Since that time the British House of Commons has reduced Lords and Crown to impotence and has itself lost control to its putative creature, the Prime Minister. The French parliament has been eclipsed, if my count is right, by three kings, two emperors and one Charles de Gaulle.

The legislatures of other countries have gone through frequent and sometimes drastic changes. Congress is the oldest representative assembly of a major state which has retained its constitutional powers intact, accommodating to the stresses of history without losing the partner's role the founders intended for it.

This is not to say it has not been tested. The nation has expanded from a cluster of seaboard states to a continental empire. Forty million immigrants have been assimilated into the stream of American life.

Two world wars, four smaller ones, and numerous military actions of varying size have been fought. A civil war, the ultimate test of a political system, has been largely contained and absorbed.

Panics and depressions have been surmounted and the responsibility of government enlarged from carrying the mail and fighting Indians and little else, to fostering, protecting and regulating the activities of its citizens in most aspects of their lives.

In all this the President and Congress never have been exactly equal partners and the system probably has worked better when the President was a little more equal than Congress. But Congress has never lost out; it has carried its share of the load and today clearly is the most powerful legislature in the world.

Why then is there so much complaint about Congress and so much demand that it be changed?

The answers are many and varied.

Congress is more visible in its operations than the other branches. It lacks the mystique of President and court; congressmen are like ordinary people—we see our own strengths and weaknesses in them.

But there is more to it than that. Many people have found fault with Congress for many reasons, but the most pointed and sustained criticism surely has come from those we loosely call liberals—people who want government to move more swiftly and with more coherence to solve social problems, who see a strong, responsible party under presidential leadership as the appropriate vehicle to furnish that kind of government, who are fretted with a decentralized power system controlled largely by conservative elements which balk at enacting the President's program.

They see Congress as obstructive. Filibusters, the Rules Committee, seniority chairmen, rural overrepresentation, all are elements of obstruction in houses no longer capable of handling the problems of the mid-century. Only major overhaul will save Congress from obsolescence, declining prestige and finally inevitable loss of power.

Nothing sacred

There is nothing about the procedures or structure of Congress that should be defended for its own sake. Congress, like other institutions, goes about its business in certain ways because at some time or other in its history these ways have proved to be convenient to most, or enough, of the members.

These ways are continued so long as they are more convenient to maintain than to change, or so long as they work to the advantage of interests strong enough to preserve them. When they become inconvenient to enough members, or they obstruct the will of an effective majority, they are changed.

The House of Representatives had something close to party government under the leadership of Speakers Reed and Cannon. The powers of the Speaker nevertheless were sharply reduced in 1909-11, not because they were bad in principle but because Cannon repeatedly put his own views of public policy ahead of those of the Republican majority. The control, if not the powers, of the House Rules Committee were altered in 1961 for the same reason: the Committee had too often frustrated the will of the Democratic leadership.

Such changes do not come easily. For one thing, there is great tough-



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CONGRESS

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ness in an established way of doing something. An institution is, after all, a pattern of anticipated behaviors; it is made strong because its procedures are formal, stable and predictable. Its members and the public know what to expect; it does things the right way. We identify court, legislature, executive, church, school, not by the names they give themselves but by the way their participants behave.

Not all ways of doing things do or should stand on the same footing, of course, but the authority which attaches to procedures vital to the integrity of the institution may easily be transferred to mere institutional habits.

Furthermore, no institution stands alone. Congress is a part of the American political system, a complicated network of relationships which have been fashioned by our national history and prehistory. No really fundamental aspect of Congress can be altered without affecting changes in other agencies with which it is bound up, and in many cases the other changes must come first.

Surely it is unrealistic to argue that a member of Congress should follow the dictates of a party organ not accepted as authoritative by his constituents, or that interests (sectional and others) which occupy crucial points of power in Congress should surrender them to interests which operate through the White House.

The heart of the matter, of course, is that most of the proposals for reform that really matter are aimed at some part of the power structure of Congress. Structural arrangements and procedural rules affect outcomes. Attempts to modify rules and structure therefore are more difficult generally than mustering a majority in the usual way, but they have the merit sometimes of conferring a more than temporary advantage on the groups which engineered the change.

Consequences of the new

These are elementary but seldom-acknowledged facts; one small asset reformers have in their unequal struggle with the incumbents of power positions is the popular notion that there is a model of a legislature to which good citizens can repair, that there is a right way to do things which will work to the benefit of everybody.

A new way of doing things is no more neutral in its effects than the old way it replaced. It will be appropriated and exploited by whoever has the skill and luck to do it. Structural and procedural changes therefore may have consequences which were unanticipated and even unwanted by their authors.

It is unlikely, for instance, that the political scientists and members of Congress who rationalized the standing committee structure in the 1946 Legislative Reorganization Act, reducing the number and spelling out the jurisdiction of the respective committees, ever intended that a Senate majority leader would find himself with no place to send a civil rights bill but to a committee whose chairman was implacably opposed to it.

The committee was indeed successfully by-passed and three bills enacted into law, but the devices employed were not good procedure and the informal conferences in the minority leader's office, which worked out the compromises necessary to invoke cloture and pass the 1964 bill, were hardly a good substitute for public consideration before a standing committee.

The multiplicity of proposals for congressional reorganization can be grouped into several categories without being arbitrary. One category relates to the effectiveness of the member of Congress himself. He is overworked. He and his staff are burdened with services demanded by his constituents.

Because of poor scheduling by the leadership and committee chairmen, he wastes times in Washington all through the spring while Congress dawdles, works feverishly in the summer while his wife and children, like other Americans, want a vacation, and perhaps stays at his task most of the fall when he wants to and should be at home canvassing his constituency.

When he goes home it is usually at his own expense; the government pays for only two round trips a session. If he is a member of the House not from a safe district he must campaign virtually all the time. Because Congress sets the salaries of its own members, his pay goes up only once a decade (or less often); because of this the increase may be substantial, which brings a chorus of denunciation.

Even in Washington his work life is often hard and inconvenient. There is no personnel office, so he depends on the grapevine to inform him of available typists; there is no effective institutional procedure

for teaching him his job, so he picks up cues where he can—often getting them too late.

These are matters which do not affect power structure or party advantage. Congress has all the powers it needs to deal with them out of hand. Nevertheless, the prognosis for reform in this relatively noncontroversial area is not especially good. The trouble is that those who could most easily effect change, the senior members, have the least stake in it. Their children, if they ever had any, are grown and on their own.

Some of them are rich or have outside income; pay increases are hardly worth the criticism they bring. The fact of their seniority means they have small worry about campaigns, and most of them find living in Washington the year round more interesting than anything that goes on in a distant place which really is not home any longer. The probability therefore is that this kind of change will be made slowly and grudgingly.

Is Congress tarnished?

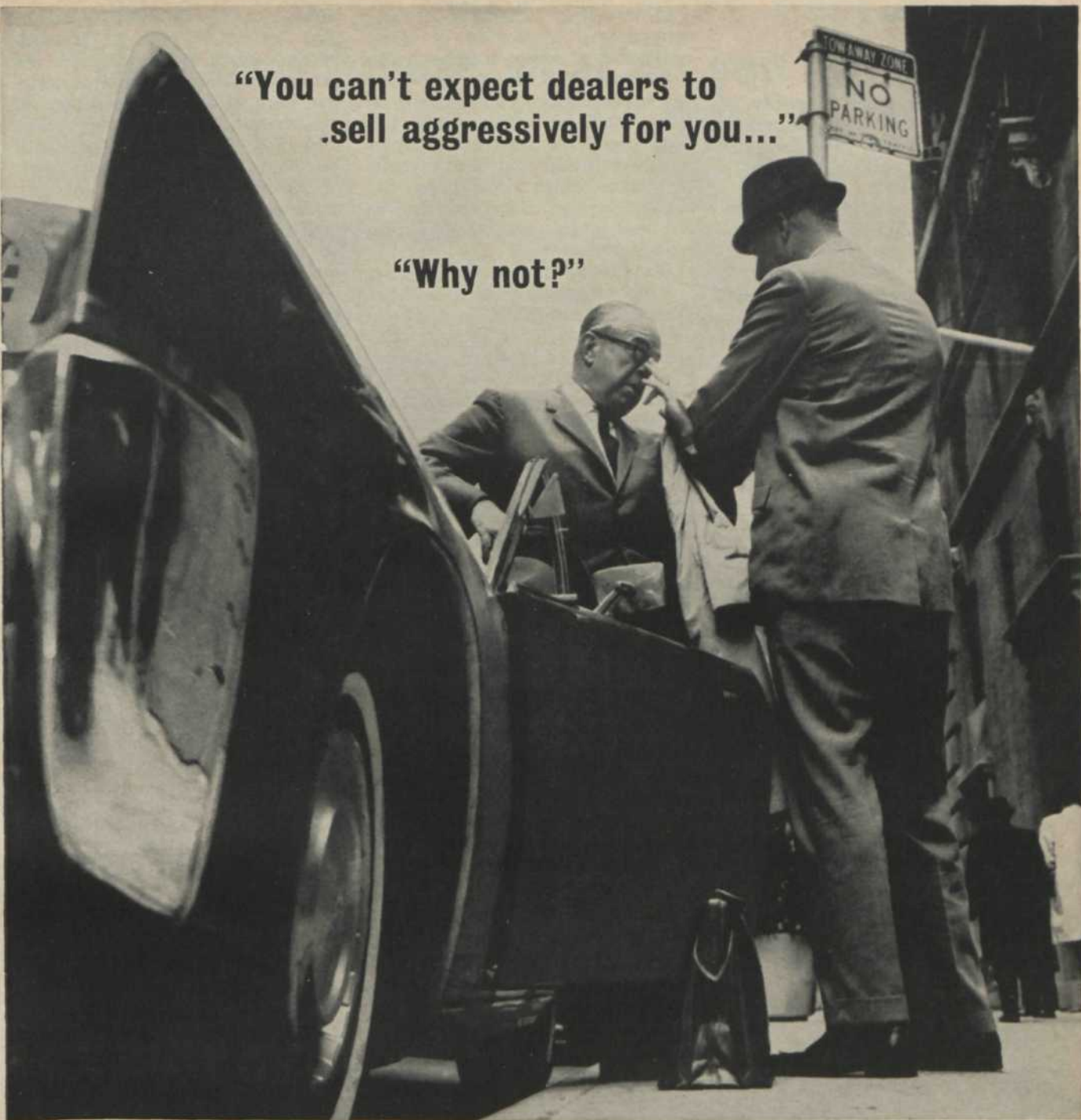
A second category of proposals is aimed at those kinds of conduct by members and by committees which bring the whole body into disrepute. The storm over committee investigations has abated somewhat, but the undeniable abuses of individuals by congressional committees, the disruption of the operations of the executive branch by irresponsible forays for publicity purposes, have tarnished Congress, perhaps irreparably, in the eyes of an important part of the public.

The permissive attitude toward committee chairmen still exists; indeed it is a basic norm in Congress. A chairman can cry havoc any day, obscuring in the ensuing excitement the careful and constructive work other committees simultaneously are doing.

The individual member likewise may write his misconduct large upon the public consciousness. He works outside, attending sessions only in the middle of the week. He is a member of a law firm which has interests to pursue with administrative agencies. He makes well compensated speeches before interest groups which lobby Congress. He puts on his office payroll members of his family whose other activities suggest they are less than full-time employees. He turns a committee trip to Europe into a flamboyant vacation for himself and perhaps his wife. These are the

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CONGRESS

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activities of a small minority of members but they get enormously magnified attention. Their behavior is generalized to all congressmen.

If Congress is to tame and control its committees in their investigations, the time would seem to be now, not when one of its more aggressive chairmen is embroiled in public dispute. General rules of conduct, which perhaps might be enforced by the Speaker on petition from committee members or others, are easier to draw up and adopt when they do not seem to be aimed at anybody in particular.

Unfortunately Congress, which polices other agencies with a right good will, is not itself subject to a policeman and is no more eager to police its colleagues than other groups are. The ultimate policeman of Congress is the electorate, but so far congressmen have little to fear from that quarter. When members can be re-elected who are under indictment for crime, and perhaps even are in jail, the lesson is not lost on their colleagues.

Other possibilities

Two other categories of change are related to each other. One would attempt to bring a measure of coordination and budgetary control to the spending and taxing activities of Congress. The other would seek to strengthen party leadership to achieve something resembling party government.

The first step toward a rational budgetary procedure was taken in the Budget and Accounting Act of 1921, which led, among other things, to the consideration of appropriations by one instead of several committees in each house. Needless to say, this is not a very long step. Appropriations still are made in about a dozen large packages each session, plus deficiency bills to correct bad guesses.

Taxation is quite separate. The Legislative Reorganization Act of 1946 attempted to relate income to outgo, which is the heart of a budgetary process, by creating a huge committee of the four taxing and spending committees, requiring them to prepare a legislative budget by the middle of February each year which would set ceilings on spending and declare whether a surplus or deficit were in prospect. The procedure was too cumbersome and is a dead letter.

Nevertheless, the two taxing committees, employing a joint committee of senior members with a common staff, have proved the two houses can coordinate their efforts effectively. The result has been to give the conservative senior members virtual control of revenue legislation—which underlines the contention that structural devices are used by those who can capture control of them.

But the fact is that coordination can be achieved, if that is what Congress wants to do.

What can be done to help Congress with its problems of organization and procedure?

We can make recommendations, as we have done. Some may be

Changes in European trade policy-making now force strategy shifts for U. S. business. See page 38.

adopted, others not. Some that are adopted will work, others not; and some that work will have unexpected effects.

The difficulty is that too little is known about how Congress actually operates now and what the effects of various procedural and structural arrangements really are. What we lack is a solid base of research which would make possible educated guesses as to who would be served by what kinds of changes and what the costs would be.

Progress has been made

Research on Congress has come a long way in the past 10 or 12 years. Political science has produced a generation of scholars sensitive to the influence on the behavior of congressmen of the various roles they assume in the related subsystems of Congress, and to the influence on Congress of external forces.

We have sliced into our problem enough ways to give us a notion of

what is there and some confidence that we know how to proceed. What we still lack, even with the extensive descriptive and prescriptive work of several generations of predecessors, is any very clear idea how Congress works. Until we have some idea what needs of the system are served by Congress and how, our laundry-ticket lists of congressional reforms are no more than statements of personal preferences.

One need, for example, that must be met before our research computers can start operating is more sophisticated understanding of what outside factors and influences press on a member of Congress.

The political party is an example. Many roll call vote studies have used "party votes," those on which a majority of one party opposed a majority of the other party.

But suppose two members bearing the same party label split their votes on a roll call. It could be that one is voting with the national committee party and the other is casting an opposing vote with a state or local party which bears the same name.

A concept of the congressman's constituency as all the people of voting age living in his congressional district can lead to remarkable results. The constituency so conceived will have opinions on very few issues indeed.

Nevertheless, the member talks about his constituency. He says he follows its wishes sometimes or all the time. Actually he has many "constituencies." He responds to different constituencies on different issues.

The research to better understand Congress can be categorized many ways. Two categories that are obvious are the internal system and the relations of this system with factors and forces outside Congress. A third category might be congressional policies: the budget, economic policy, foreign policy or defense. How effectively does the system shape a policy? A fourth category might deal with what kinds of changes would help Congress get on with its job.

All living things must change. But structural arrangements are not neutral. They will be used by those who get control of them for whatever the controllers' purposes are. Changes may have unforeseen consequences. So we must know more about how Congress works now before we say with confidence how it should work in the future. **END**

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HEALTH ESTIMATES

continued from page 33

per cent within five years or so, and possibly as high as 90 or 100 per cent."

In his research Dr. Sanders also compared the estimates of days of hospital use figured in the U. S. Social Security Administration's latest actuarial study with the actual days of hospital care under the Saskatchewan Province of Canada Hospital Service Plan. And these were also compared with estimated days per year of hospital care for aged American veterans in veterans' hospitals and elsewhere.

These comparisons showed that the estimates used by the Social Security Administration in connection with its support of the federal hospital care legislation were calculated on a basis for about "half the days of hospital care under the Saskatchewan Hospital Service Plan and one third of the hospital days used by veterans."

Dr. Sanders also notes:

"The hospital days for veterans are limited to those hospitalized for general medical and surgical conditions. It excludes all hospitalization for service-connected diseases, for neuropsychiatric conditions and for tuberculosis.

"It should be pointed out that veterans are not provided with hospital care for nonservice-connected conditions as a right. They are given such care if there are readily available beds in veterans hospitals and if the veteran can demonstrate his inability to pay for such care. It is therefore quite conceivable that under medicare the hospital utilization rate could go well above that found for aged veterans.

"In the government actuarial studies one finds no use made of the veterans' experiences. The veterans hospital study findings for 1957 were available at the time that the Health, Education and Welfare Secretary's report was prepared in 1959, yet there is no reference to them.

"The Saskatchewan Hospital Service Plan, like the proposed King-Anderson legislation, excludes mental institutions and tuberculosis hospitals and has accommodations for nursing homes. These are not included under hospital days.

"The Saskatchewan experience is not unique. A comparison of the assumed hospital utilization levels for the United States under medicare—without any cutoff—as opposed to that of all Canadian prov-

inces in 1961 and 1962 shows that utilization is higher in every province, except Newfoundland.

"This, we believe, supports our professional judgment that realistic estimates of utilization levels of hospital care would in all probability be 50 to 150 per cent more than those used by the Department of Health, Education and Welfare and later by the actuary of the Social Security Administration."

Daily costs way off

Dr. Sanders' analysis then moves from estimates of hospital use to actual daily costs of hospital care.

"The report of the Secretary of HEW set a per diem cost of \$27 to estimate the cost of paying for hospital services for the aged in 1960." The American Hospital Association which has been compiling per diem costs for its member hospitals since 1946 had much different figures.

"According to AHA, the average per diem cost of all short-term general and special hospitals (exclusive of all federal, mental and tuberculosis hospitals) for the fiscal year 1960 was \$32.23.

"In my judgment, a higher rather than lower estimate than the AHA figure should have been made. Over the initial five to 10 years of medicare there would inevitably be an inflationary effect on current per diem hospital costs because of heavily increased demand. The federal experts not only made no such adjustment, but they apparently assumed that the steep increase of hospital costs would disappear in 1960, or at least would be balanced by the increase in wage rates.

"This is an incomprehensible assumption to have been made in a report prepared early in 1959, when for the 13 prior years for which per diem hospital payments information was available the rate of increase in hospital costs had been two to three times higher than the increase in wage rates.

"Furthermore, since for cost estimating purposes only the taxable wage rates for social security would be meaningful, this would mean that the taxable wage ceiling would have to be raised frequently, perhaps every year, so as to parallel any annual increase in wage rates.

"In the latest actuarial study, it is said that the cost estimates which have been prepared assume a per diem cost of \$37 from 1966 on. This is tantamount to saying that after 1966 the increase in hospital costs would have to be met by progressive annual raising of the ceiling on taxable payroll. Thus, the

percentage given in the official estimates has at least two important ifs in it.

"The first is whether the \$37 per diem is valid for 1966 if medicare were enacted at this time with full benefit payments in force throughout the year. The probable average per diem cost as compiled by the American Hospital Association, without any drastic changes such as the introduction of medicare, would be about \$46 in 1966. The stated reasons for reduction in the per diem cost given in the Secretary's report and incorporated in actuarial estimates, even if accepted, could not reduce the average payment for aged patients under medicare to \$37.

"The second if is whether the trend in the rate of increase in per diem hospital costs would remain the same. In my opinion, the introduction of medicare would very much accelerate the upward trend in per diem hospital charges relative to wage rates, and would do so in such a way that the cost in 1966 would substantially exceed \$46 and the anticipated time when the increase in wage rates will catch up to the increase in hospital costs would be even further away.

"Those preparing estimates for medicare probably could have found the expected effect of medicare on costs through a study of the Canadian experience. But nothing like this was done.

Dr. Sanders says that in 1959 he prepared a critique of the HEW Secretary's report on the cost estimates. He sought permission to make studies of what would happen with regard to hospital use by the aged if so-called medicare legislation were enacted. He reports that he was given no encouragement. Subsequently his statistical staff was taken away from him without explanation.

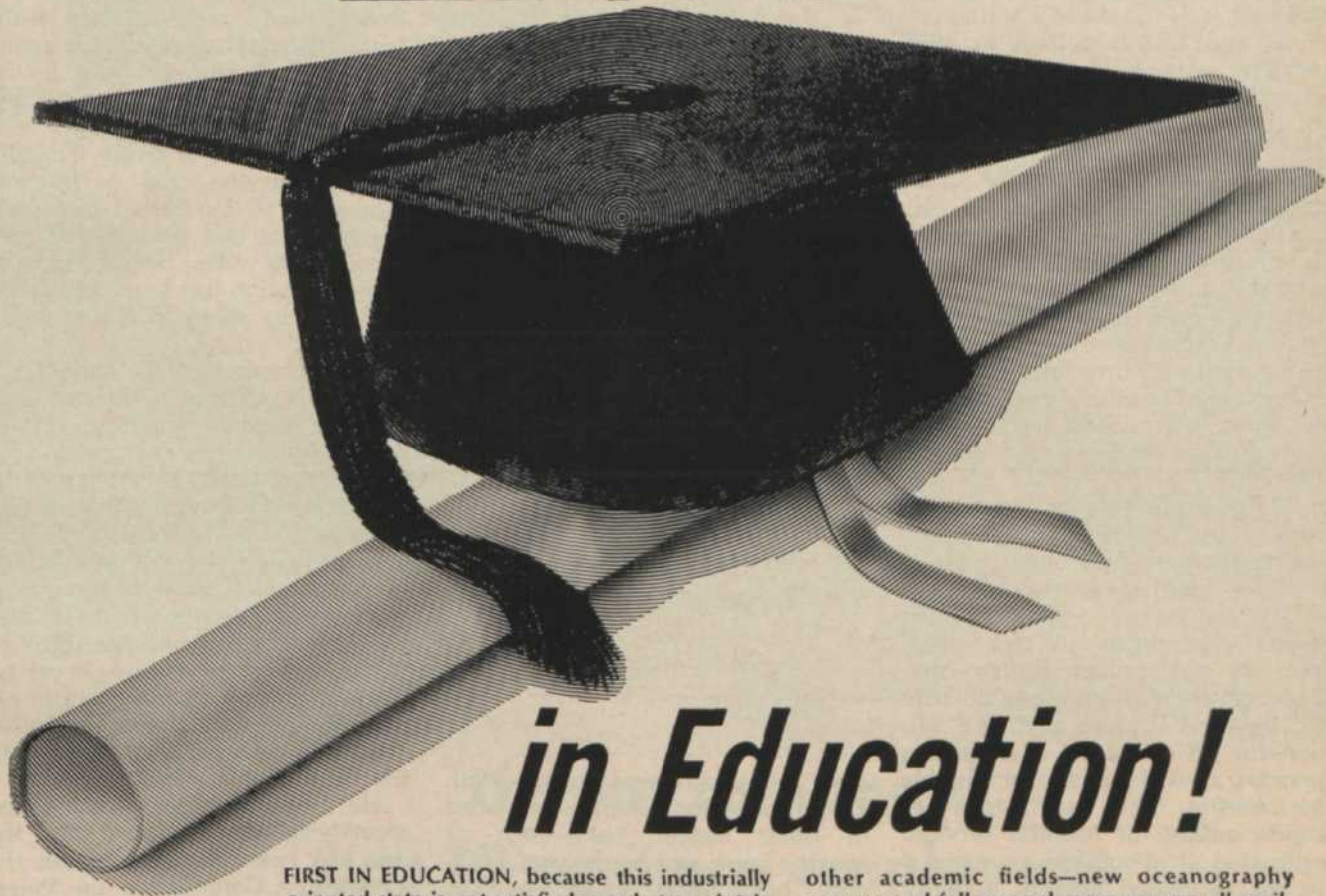
Looking ahead for NATION'S BUSINESS, Dr. Sanders says:

"There is every reason to believe that the steeper increase in hospital costs will continue for the foreseeable future. . . . On the basis of such evidence an eventual increase of 150 or even 200 per cent would be more likely over the long range. Besides, the faster increasing costs of per diem hospitalization, the growing liberal use of hospital service, as well as the progressive further aging of our aged population, and medical advances over the foreseeable future would all contribute to this faster upward trend in usage and costs."

The official government assumption

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Mr. Wendell Jarrard, Chairman
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HEALTH ESTIMATES

continued

tions about hospital days and hospitalization costs of the aged under the most recent proposal can be demonstrated to be unrealistic through another approach.

Dr. Sanders points out the Division of Research and Statistics of the Social Security Administration last year estimated total medical care expenditure, both governmental and private outlays, for those aged 65 and over as \$4,915 million in 1960 and \$5,355 million in 1961.

"The estimated expenditures indicate that—for 1961—\$2,325 million of the total was spent for hospital care and \$500 million for skilled nursing home care. Of the \$2,325 million total, \$495 million is estimated as the expenditure of public funds for mental and tuberculosis hospital services. Subtracting this amount would leave \$1,830 million and an allowance of \$30 million for private expenditures for mental and tuberculosis hospitals would finally leave \$1,800 million as the total expenditure for aged for general hospitals.

"This represents a per capita amount per aged of \$106. The 1960 equivalent would be about \$98.

"This contrasts sharply with the HEW Secretary's estimate of per capita expenditure in this initial year of government health care. The cost estimate for hospital care for the aged is given as \$762.8 million for an estimated 11.6 million persons aged 65 and over eligible for benefits. This results in a per capita outlay for hospital services estimated at about \$66 as opposed to the estimated amount actually spent of \$98.

"Another way to look at this per capita figure of \$98 is to project it to 1966, and compare the projected finding with the cost estimate in the latest federal actuarial study. The projection yields a per capita expenditure of \$139 in 1966.

"The benefit expenditures, including administrative expenses for calendar year 1966, are given as \$1,530 million in the latest actuarial study. The number of beneficiaries is estimated as 18 million for 1965. We can assume that this number would be about 18.4 million for 1966. On this basis the per capita benefit expenditure, according to the actuary, would be \$83, or about 60 per cent of our estimated amount of \$139.

"The actuarial estimate includes the costs of all the other benefits

provided under medicare. If limited to hospital benefits only, on the basis of the percentage distribution of taxable payroll costs given for the latest estimates, the per capita amount for hospital benefits would shrink to \$72, about 52 per cent of \$139."

So, if the federal medicare plan is enacted, one or more alternatives would be needed to pay its costs—or make it actuarially sound. Either the benefits would have to be reduced to even more limited health care, or patients would have to pay more of the bills themselves. Or the amount of social security tax or the base on which this tax is levied would have to be boosted sharply.

Dr. Sanders' analysis clearly indicates that the Social Security Administration has avoided a study and presentation of the evidence that would yield the most probable costs of hospital care under the

A political expert tells
what initial and historic
moves the newly elected
President must make.

See page 34.

most recent congressional proposal. Under these circumstances estimates of other benefit costs—such as nursing home and home care—probably have little value, in Dr. Sanders' opinion.

The various estimates convince him that these are figures that were selected with only one constraint in mind: "That the over-all percentage of the taxable payroll required should not move too far above the .5 per cent selected back in 1950 as the proper cost for hospitalization benefits for the aged.

"For 1966 the amount of skilled nursing home care for 18.4 million people, according to the government estimates, would be \$68 million, \$3.70 per aged. But, according to the 1961 expenditure study [done by the Social Security Administration], nursing home costs amounted to \$500 million, or \$29.40 per person."

In the light of current usage as well as the increasing rate of demand this \$3.70 figure makes little sense.

"For home health services [the third category provided under the government health plan] the per diem amount would be about \$6 per capita. Taking various cost trends into consideration, this would mean less than one nursing visit or other equivalent services per person every other year. Outpatient-hospital-diagnostic services [the fourth kind of services under medicare] would cost about \$1.20 per person. Of course, the patient is required to pay \$20 toward this service, but the government's inclusion of this benefit would cause inflation in the cost of the service, so that the actual cost to the insured would be increased rather than reduced."

Dr. Sanders explains that it is not his purpose to damn a health program for the aged, or to deny a need for it—but rather to convey his personal and professional conviction that "the Social Security Administration has been concealing the truth by means of its actuarial estimates."

He declares that we should not delude the public as to the cost of an effective health program. "If a sound realistic health program cannot be accepted by the public on its merits it should not be imposed on them by the government."

Dr. Sanders' experience in government has included service as chief of the Division of Health and Disability studies in the Office of Commissioner of Social Security, research consultant with the Bureau of Old Age and Survivors Insurance and research consultant with the U. S. Public Health Service.

He was a member of the social security mission to Japan after the war and research analyst with the President's Commission on Veterans Pensions. He is a consultant to the United Mine Workers Welfare and Retirement Fund. Presently he is doing statistical research for the George Washington University and is consulting actuary with the University of Pittsburgh's Graduate School of Public Health on a special study.

The authoritative opinions and judgments of Dr. Sanders are his own and should not be attributed to any organization or institution with which he has been or is associated. **END**

REPRINTS of "Federal Health Estimates—300% Wrong" may be obtained for 30 cents a copy, \$14 per 100, or \$120 per 1,000 postpaid from *Nation's Business*, 1615 H St. N. W., Washington, D. C. 20006. Please enclose remittance with order.



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WHERE AMERICA GETS ITS STRENGTH

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A NEW CYCLE in one of history's most dramatic experiments—the American system of government—begins to unfold this month with the election of the next President.

The policies he follows will greatly affect the prospects of your business, the prosperity of all Americans, the nation's leadership in the world.

It is timely and important, therefore, to take a new look at the principles which give Americans an unprecedented blend of prosperity, freedom and social consciousness. The principles offer guidelines for judging proposals for future change in national policies. For, as this article emphasizes, political and economic freedom are interdependent.

The man who points out these basic American tenets is Thomas C. Mann, a lawyer, career diplomat and currently Assistant Secretary of State for Inter-American Affairs. He was Assistant Secretary of State for Economic Affairs under President Eisenhower. In these offices he has had to advocate, explain and defend the American economy to foreigners tempted by the claims of communists as well as to champions of other forms of politics and economics.

These thoughts of Ambassador Mann are scheduled

to be published in December as a chapter of a new book titled "World Economic Problems and Policies," copyright © 1964 by Herbert V. Prochnow. It is reprinted by permission of Harper & Row.

THE IMPORTANT THING about an economic theory is not whether it is logical or whether its proponents have good intentions, but whether it produces results—whether, without destroying freedom, it creates prosperity or poverty for the people.

This is the yardstick by which all economic systems and policies will ultimately be judged. Whether a particular policy will promote or impede progress is often open to debate; for unlike mathematics, economics is not an exact science. But whether a particular system or policy is, or is not, successful can be ultimately determined with great accuracy.

Other nations have had more spectacular rates of economic growth for short periods of time, but no one can match this country's record of sustained growth and achievement over a long period of time. U. S. production today is the highest in the world, whether we measure it in terms of individual or national income.



Thomas C. Mann, the author, is Assistant Secretary of State

The U. S. record of social achievement has been even more impressive. The nation has had a continuously rising curve of individual productivity, steadily increasing wages and an unmatched domestic purchasing power created by the simple act of sharing growth with middle- and low-income families. Some economies today pay the capitalist a larger rate on his loans and investment than he can earn in the United States. But no economic system pays so well its workers in the factories and on the farm, its teachers, its professional class—all those who produce goods or render services. And no other system has been more successful in leveling off extremes of poverty and wealth, in achieving an equitable distribution of the national product and in preventing the exploitation of man by man.

All this has been accomplished in the United States without sacrificing freedom, either economic or political, and without creating divisive hatreds between classes. In comparison, socialist regimes, at a great cost in human lives and human misery, to say nothing of human liberties, have succeeded only in substituting for the old ruling classes a new privileged class of bureaucrats. Their people are, after all these years, still far from achieving the standard of living and individual income that the United States has enjoyed for decades.

It is a paradox of our times that, in spite of this record, so many people spend so much time lamenting the shortcomings of the U. S. economic and social systems. They apparently fail to understand the difference between theory and practice, between utopian dreams and solid achievement.

The progress made in the United States is attributable to certain broad economic principles, tested in practice for more than 175 years, which form the guidelines for the U. S. economic system and for its economic policies.

One of the most important of these principles is economic freedom.

During the Seventeenth and Eighteenth centuries,

when Europe was ruled by kings and the United States was a colony of England, the theory of mercantilism dominated European economic and political thought. Essentially, mercantilism taught that a state prospers by amassing gold. This could be brought about by a country's exporting more than it imported. Foreign trade, as well as domestic production, was therefore tightly and extensively controlled in order to make it possible for the country to maintain favorable balances of trade with each trading partner.

To cite only one example of the degree of control exercised by government in those days, it is said that, between 1666 and 1730, the rules of the French government for the French textile industry alone filled 2,000 printed pages.

When it became apparent that these controls were stifling production to the detriment of the living standards of the people, the pendulum swung naturally in the opposite direction.

Adam Smith, in his "Wealth of Nations," spoke of natural liberty as including the right of people to be free in the economic as well as the political sense. Economic progress would come faster, Smith said, if governments were relieved of "the duty of superintending the industry of private people." This idea that political and economic freedom were interdependent was developed, in England at least, by other economists and philosophers and by distinguished lawyers such as Sir Henry Maine and Edward Coke. In essence, they feared the exploitation of man by the state even more than they feared the exploitation of man by man. Man, they reasoned, can better protect himself from the tyranny of an individual than from the tyranny of an all-powerful state.

The concept of economic freedom runs through the Declaration of Independence and the Constitution of the United States.

This does not mean, of course, to imply that Americans believe that economic freedom should be unlimited. As James Madison pointed out, men are not





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—You cannot live in the past. You cannot rely on what has worked in the past. You cannot do things today the way you did them yesterday, if you don't want to be wrong. You must live in the present—and face up to the problems of the present.

—But, in facing up to the problems of the present, you must be smart enough to remember that there are certain principles, values and standards out of the past that are worth keeping and using.

POINT OF VIEW

One of the principles worth preserving is that you cannot get “something for nothing.”

There is still a place in life for work, ambition, initiative, self-reliance, self-discipline, self-respect.

A second principle worth preserving is that, if you want freedom, you have to practice freedom. You have to assume *responsibility* for making self-government work; you have to assume responsibility for solving today's economic and social problems where the problems are, and where you are. In your own community.

You cannot turn these problems over to an overgrowing bureaucracy in Washington to solve, and still expect to remain forever free from government intervention and control. Sooner or later, your human and economic rights will be gone.

A third principle worth preserving is that, if you want to get satisfaction out of life, as well as security, the only way in which you can do so is by being *useful* in the world—by making an outgiving effort to contribute to the greater good of all—and by continually striving to grow and develop as a person.

This is the National Chamber's point of view. If you are interested in knowing what the Chamber is doing these days to put this point of view into effect and to make it mean something—and we hope you are interested—read our progress report, “Finding and Applying Private-Business Solutions to National Problems.” A copy will be sent you free.

Chamber of Commerce of the United States
WASHINGTON, D. C. 20006



STRENGTH

continued

angels. He wrote in the "Federalist Papers" about the danger of the tyranny of the majority:

"A pure democracy can admit no cure for the mischiefs of faction—there is nothing to check the inducements to sacrifice the weaker party."

And because tyranny by the few over the many is also possible, the United States has adopted anti-trust laws to prevent unfair trade practices. Similarly a limited number of U. S. industries, such as railroads and public utilities, are regulated. There are other limitations to the principle of absolute economic freedom, notably with respect to research needed for production of military and space machines and nuclear energy. There are certain controls on shipping, telecommunications and aviation, and on the production of a limited number of agricultural commodities.

But it needs to be emphasized that these are the exceptions and not the rule. Virtually all U. S. industry and farms are privately owned. Individuals and corporations conduct their own research, improve their own designs, seek new and better ways to improve the quality of their product and to reduce its cost. The producer is free to make what he pleases and to fix the price of his product. The consumer is free to buy what he chooses.

A free economy is not only consistent with, and indivisible from, principles of political freedom, but also serves the material end of promoting material progress. This is so because, as has so often been observed, freedom of choice by the individual unleashes individual ingenuity and inventiveness; this in turn gives a vitality and dynamism to the economy, which it could not otherwise have. John Chamberlain explains the principle in these words:

"The virtue of a free system—i.e., competitive capitalism—is that it allows energy to flow uncoerced into a thousand and one different forms, expanding goods, services and jobs in myriad unpredictable ways."

Mr. Chamberlain has observed that economists did not plan or foresee the machines of the Industrial Revolution or Eli Whitney's cotton gin. No economist thought of Henry Ford's innovations in as-

sembly-line production; his \$5 daily wage to workers was, both in classical and socialist theory, an economic impossibility. Even today, who can imagine the shape of things to come if man, the individual man, remains free to invent, to experiment and to produce the things which the world needs?

And now a second principal tenet of the U. S. economic system: High standards of living for the people can best be achieved in a competitive economy.

Competition

First, consider the protectionist, the one who does not wish to compete. In the United States a minority of businessmen assert that their businesses are an exception and need protection. Often they say that their only motive is the protection of the jobs of their employees or, perhaps, their only interest is that national security be maintained by denying foreign competitors access to our markets.

To be sure, there are cases in which protection is justified and desirable; for example, in the case of an infant industry that has good prospects of becoming efficient and competitive if, for a limited period of time, it is given a reasonable degree of protection. There are other exceptions. As do most economic decisions, the problem in the end becomes one of scope and degree.

But we need constantly to remind ourselves that the national economy and the people pay a high price for excessive protection. Protection to a small group of individuals who own a particular factory is, in economic terms, a subsidy to the owners, no matter what form it takes—whether it is a tariff, a quota, a licensing arrangement or a cash subsidy.

If the subsidy is in the form of cash paid the producer, it is the taxpayer who foots the bill. If it takes other forms, it is paid by the consuming public through higher prices, usually for an inferior product, thereby lowering the real income of the people. Precisely the same thing occurs when the industry is state-owned. The difference is that in this case the higher prices for consumer goods can be considered as an indirect tax. If the prices are kept artificially low for social or other purposes, the consumer of the particular commodity gains, but it is the taxpayer who pays.

So, in these days when we are all talking so much about raising real income of individuals, the question may well be asked on social as well

as on economic grounds: Who receives the subsidy? Who pays the subsidy? Will the protected industry really be able, within a reasonable period of time, to pay the people back by efficiently producing goods of high quality at low cost?

The answers to these questions clearly demonstrate that the consumer—and this includes every one of us because we all buy consumer goods—has a stake in keeping industry efficient and competitive. For whether we consumers are employers or employees, whether we work in a factory, on a farm or in an office, the quantity and quality of the things our money will buy is at least as important to our standard of living and our real income as the number of dollars we earn.

And the same thing is doubly true of our wage earner. His real wages are reduced if he has to pay more for what he consumes. In addition, he loses his chance of a noninflationary wage increase, for the only noninflationary way to increase his wage is to increase his individual productivity. Productivity is increased more in efficient industries because they use the latest and best machines. It is no accident that in free competitive economies, the real wages of the worker are much higher than they are in economic systems that avoid competition.

If the consumer, the taxpayer, and the worker profit more, as individuals, in a competitive economic system, so does the economy as a whole.

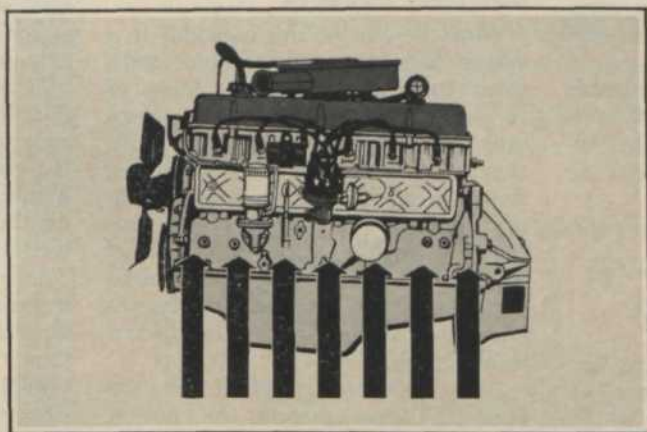
Experience of the United States proves the value to its economy of the free play of competitive forces. We may also learn from the experiences of other economies in which competition has been, or is being, restricted on the theory that controlled economies eliminate waste and make for a better utilization of resources. If we look at the experiences of others, we find that there are indeed a number of consequences to restricting competition.

First, industries that are protected from the spur of competition have no incentive to conduct research, to modernize their machines and methods of production or to find ways to improve the productivity of the individual worker. The result is that the national industrial plant, not to mention wages, remains static while the competitive world passes it by on the road to more efficient production.

Second, protected industries can



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
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STRENGTH

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seldom compete abroad, and when too many industries become non-competitive, the national industrial plant cannot earn foreign exchange. We may well ask ourselves whether monopoly trends, already discernible in some parts of the free world, will not in the end have the effect of tying some economies, perhaps permanently, to groups of high-cost, inefficient industries.

Third, a high degree of protectionism often goes hand in hand with the progressive expansion of the public sector and a corresponding contraction of and control over the private sector. This restraint, in turn, tends to undermine confidence, which so often translates itself into a reluctance on the part of the private sector to invest and which sometimes causes flights of capital.

The end result again is a lowering of the growth rate and the creation of balance-of-payments and other problems.

Fourth, another demonstrable inhibitor restricting competition is that in controlled economies, inefficient industries are seldom al-

lowed to go out of business. Usually the state takes over the business to prevent economic waste. The same end result of government ownership can be achieved by the nationalization of an efficient, privately owned enterprise, for nationalistic or other reasons. And when the state becomes the owner of an inefficient business, the government usually ends up by having to protect it from competition of more efficient industries by giving it monopoly status or other special privileges.

The lessons learned from U. S. experience are substantially the same as those learned from the experiences of other economic systems: Wherever competition is suppressed or controlled, the result is high-cost and low-quality production, to the detriment of both individual and national well-being.

A third tenet of the U. S. economic system is this: Individual incentive has economic value.

Individual incentive

Most people do not consider it a virtue to content themselves with what they already have. Most of us want a better life for ourselves and our children. It is this aspiration plus the activity it generates that has ever been the mainspring of progress, for progress and economic growth require human effort and the rate of progress and growth are related to the degree of human effort that people are willing to put into the job.

The economic system of the United States rejects the notion that "you work for John and you may be sure he will attend to your needs" as impracticable and utopian. Its citizens are as idealistic and as concerned about their fellow man as any people in history. But they also recognize the reality that man has a driving urge to satisfy his own needs and those of his family.

They therefore believe that society benefits from both the idealism and the self-interest of man—that man can best contribute to the general welfare through his efforts to provide for himself and his family.

They conclude therefore that the profit motive is an indispensable element of economic progress and concern themselves with preventing excesses and man's exploitation by man.

The U. S. asserts that the validity of this thesis is proved by the comparison of agricultural production in economic systems that have

taken away the farmer's personal incentives to produce with the U. S. system, which provides guarantees to the farmer that his land is his to own, improve, develop and make productive, and pass on to his children.

This introduces a fourth tenet: Capital and the capitalist are essential and useful elements in the process of efficient production.

Capital and capitalist

Under all economic systems, national and individual incomes can be increased only when national production is increased. Economic development, or economic growth, is essentially the increases of national production plus the distribution of increased production on a broad scale so as to increase the purchasing power of individuals.

Under all economic systems, the rate of economic growth depends upon the extent to which a country, 1, accumulates capital and, 2, uses the accumulated capital, in combination with its natural and human resources, in the efficient production of goods and services.

If one looks at the free world today, he must come to the conclusion that the most important missing component in many of the economic development programs is risk capital and the managerial and technical skills that go with it. Those countries that have created internal conditions that attract the largest amounts of risk capital are those that have the highest sustained rates of economic growth. Conversely, those that discourage risk capital, and which must then necessarily depend too much on investments by the public sector, will in the long run have lower rates of economic growth.

Who provides the capital component of economic development? In the United States today it is the millions of people who have refrained from consuming all their earnings and who have invested their savings directly or indirectly in productive enterprises that create jobs and produce goods for the people.

Thus they contribute a scarce and essential component of the productive process that, within a few generations, accomplished more material progress for mankind than had been accomplished in the preceding thousand years.

It is true that the capitalist may make a profit until such time as a competitor makes a better product or becomes more efficient and hence able to sell at a cheaper price. But

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it is also true that in order to make a profit in a free competitive economy such as that in the United States, the investor must earn it by first making a new or a better product wanted by the people.

Some 600 companies, for example, have been formed at one time or another in the United States to manufacture automobiles. Out of the fierce competition that prevails in this industry, not more than a dozen significant producers have survived. But the result is a better product at a lower price for the benefit of the consumer than would have been otherwise possible. Who can deny that the investor who has survived this degree of competition and who has, in the process, made available to the public a better and cheaper product, is not entitled to his reward just as are the managers, the technologists, the workers and others who contribute to the productive process?

Of course, profits can be excessive. In the early days of capitalism—the only kind of capitalism that Karl Marx knew anything about—they sometimes were. But in the United States it has not seemed necessary to burn down the barn to kill the rat.

There is another point about the profit system in a free economy that needs to be repeated more often: It is the fairest system yet devised for rewarding those who contribute to the public welfare. In socialistic systems, success and material rewards are usually dependent on political favor. But in the U. S. economic system, success or failure or profit or loss is decided in a very impersonal manner by the consuming public. The sole judge of whether a product "sells," and hence whether the investor earns a profit, is the anonymous consumer. He makes his decision without pity and favoritism, and even in an unconscious manner, because he makes it on the basis of his own self-interest. How could there be a fairer judge or a more impartial standard?

It is therefore no accident that most of the highest positions in the U. S. competitive system are filled by those who have worked their way up on the basis of ability. And because of these same factors, the large corporations of the United States are no longer owned by a few. They are owned by the people who have invested their savings in the exercise of their own will and judgment. This is why U. S. capitalism is often called "peoples' capitalism."

END



THE RULES OF THE GAME

How well a player knows the rules of his game often makes the difference between winning and losing. So of course when a change in rules is made—as in the case of this year's new rule in college football permitting free substitution at time-outs—the successful competitor has to know exactly what the change is, how it will affect his style of play, and then alter his game strategy accordingly.

Knowing the rules by which you must operate can also make the difference between "winning" and "losing" in your business or profession. And these rules are changing constantly . . . via new legislation . . . through the less publicized decisions of courts and government agencies. Some changes may be small but, if unheeded or unknown, they could possibly "cost you the game."

Keeping members informed and up to date on such changes, large and small, is just one service performed by trade and professional associations. Yet this one service alone can repay many times over the cost of your membership. Be sure you know the rules you're playing by. Join and participate in the association in your field.

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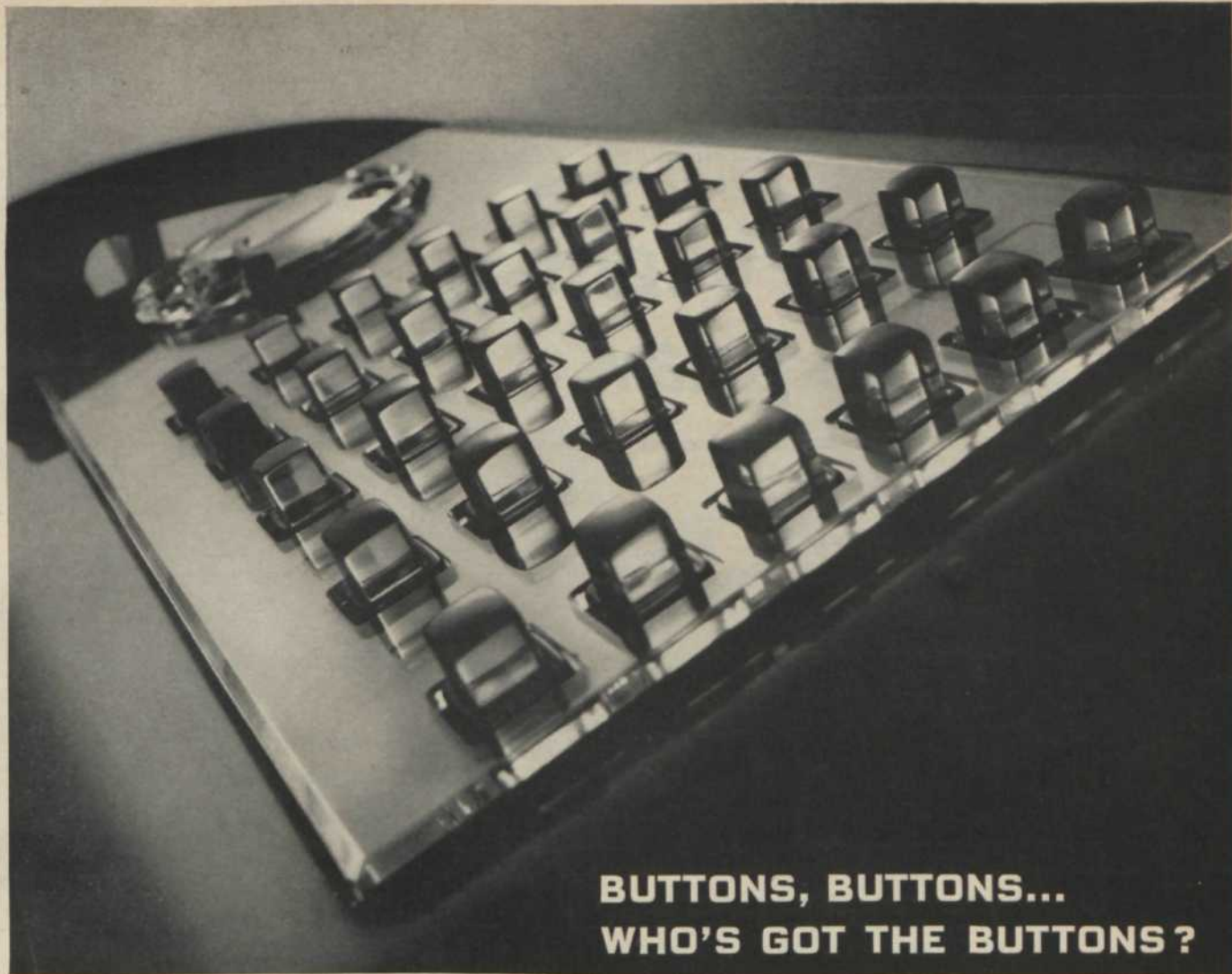
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I certify that the statements made by me above are correct and complete.		
(Signature of editor, publisher, business manager, or owner)		
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The Bell System has... pushbuttons that can turn your telephone into a versatile intercommunicating system at the touch of a forefinger.

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There ought to be a law

OF THE 4,097 bills introduced in Congress this year, fewer than 600 have found their way into law.

This might seem a small percentage. But if you look at the price tag the record is much different.

Bills passed this year provide for federal spending of \$106 billion. That averages out at more than \$550 for every man, woman and child in the country.

Among bills which didn't become law were two which would compel businessmen to go to great lengths in spelling out interest charges to customers and identifying goods offered for sale. Supporters called the former, "Truth-in-lending," the latter, "Truth-in-packaging."

The new Congress might well consider a measure requiring every lawmaker to spell out in clear and precise terms just exactly how much his proposals would cost the taxpayer.

Such a bill could be called, "Truth-in-legislating."

Nation's Business • November 1964



Bottles have changed...

but never the quality of

I.W. HARPER

since 1872

PRIZED BOTTLED IN BOND OR
MELLOW GOLD MEDAL BOURBON

From left to right: "Dandy" Pinch Bottle, 1900; "Amber" Glass, 1880; "Canteen G. A. R.," 1895; "Pewter Pitcher," 1900; "Companion" Decanter, 1910; "Bar Bottle" Cut Glass, 1910; "Dwarf" Decanter, 1885; "Gold Medal" Decanter, 1949; "Harper's Own" Ceramic Jug, 1890; "Little Companion" Cut Glass, 1910; "Nautical," 1890; "The American" Flask, 1875; "Carboy" Wicker-Covered, 1880; "Cameo" Miniature, 1899.

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THE GOLD MEDAL KENTUCKY BOURBON



Floor featured in this Boutique is new Kentile® Bamboo Solid Vinyl Tile. Size: 4" x 36". Colors: Silver and Chinese Black. Riser Base is White KenCove® Vinyl. Floor design and interior by C. Eugene Stephenson, F.A.I.D.

KENTILE VINYL FLOORS

Bamboo! An exciting new Kentile Floor that's perfect for any place of business. This beautiful solid vinyl tile adds an exotic touch to any decor. Yet, Bamboo is a brawny tile...with a warm, textured surface that's greaseproof, easy to maintain, and comfortable underfoot. Won't show spiked-heel dents. Expensive? Bamboo's low price is the nicest surprise of all! Your Kentile Dealer is in the Yellow Pages under "Floors." Or consult your builder, architect, or interior designer.